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With The Editors

Little Business and the Boom

BY LAURENCE STERN

An index of the total business activity of the country is an inhuman, coldly statistical thing and its upward fluctuations during the greater part of the period since our economy hit bottom in 1932-1933 have not meant a great deal to the little fellows of business.

Statistically and without allowance for population growth, business for a time in 1937 was about as good as in 1929. But to the local grocer, the service station man, the milk dealer, the cobbler, the tailor, the florist, the dentist and the restaurant man that was no boom. Only when a high business level is maintained for a considerable period of time, with full participation by the capital goods industries, can prosperity be widely diffused.

Just as the 1936-1937 experience proved this point from the negative side, the present armament-stimulated activity is proving it from the positive side. A record volume of industrial production is assured for an indefinite time and the capital goods industries in particular are swamped with orders. In every industrial city and town one can see and sense returning prosperity—and its signs are both more evident and more spectacular in the smaller communities than in the large.

York, Pa., with a population of about 56,000, is a typical example of what is going on in hundreds of long-rooted industrial towns. Most of its factories are locally owned. Armament orders on hand, mostly subcontracts, are variously estimated from $25,000,000 to $40,000,000 with more to come. What this means to little business can be visualized from a very few items taken from a recent survey made by the *New York Times*.

Girls who were satisfied with $2 and $3 dresses a few months ago are now buying $7 dresses. . . . The liquor stores over the holidays sold one-third more bottled goods than a year ago. . . . Almost everybody is off relief except the unemployables. . . . Housing shortage more acute from week to week and rents going up. . . . Skilled labor very scarce and at a premium. . . . One leading merchant says sales in recent months were up 20 per cent, but that York people were paying off debts and not going hog-wild in buying. . . . At the seven movie houses standing-room-only signs are seen most evenings. . . . Beauty parlors taking in 25 to 30 per cent more than a year ago. . . . An automobile dealer reports sales more than 24 per cent above a year ago. . . . Streets and stores jammed.

We could wish this boom were founded on something other than demand for war goods—but it *is* a boom and little business will share in it in full measure. In time our problem will be not too little prosperity but too much. There may not be enough goods and services to satisfy all demands.

*** * * COMING IMPORTANT FEATURES * * ***

1941 SECURITY APPRAISAL AND DIVIDEND FORECASTS

February 8 Issue — Steel, Building, Metals, Liquor, Machinery and Equipment Industries

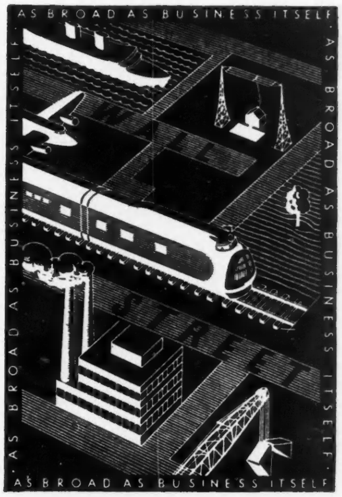
February 22 Issue—Aviation, Motors and Accessories, Chemicals, Oils, Movies and Merchandising

Wide World Photo

The Shipbuilding Industry is characterized by a cycle unique in duration. It boomed with World War I, lagged for 20 years and now booms again with World War II. This splurge is good for at least several years, maybe considerably more. It accounts for a goodly share of the record backlogs of orders now on the books of American industry and for an exceptional prosperity in and around shipyard towns. **For details, see the feature articles beginning on Pages 442 and 454.**

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

THE LEND-LEASE BILL . . . The question of financing future purchases of British war goods in this country is the least controversial and least urgent aspect of the Administration's "Lend-Lease" Bill. It is least controversial because majority public opinion strongly favors a continuing flow of American arms and munitions to Britain, regardless of the method of financing and despite the improbability that ultimate payment can be made in a form useful to us. It is least urgent because the British have already paid for more goods than can be delivered for many months to come and because it is improbable that any future production financed under the proposed bill can affect the course of the war one way or the other at any time this year and certainly not between now and summer.

But what may become urgent is aid for Britain beyond what can be supplied by new production. And under the proposed bill the President would have the power, among other things, to "lend" or "lease" any part of our Navy's equipment or the Army's equipment. Our neutrality of course, has long since been abandoned in fact. We are trying to help Britain defeat her enemies, without full participation in war or risk of American lives.

This policy of positive non-belligerence is not without grave risk but The Magazine of Wall Street favors it because we believe an isolationist policy would involve even greater long run dangers. We further believe that its execution requires the centering of extraordinary, temporary discretion in the Chief Executive. Whether the bill in present form confers more power on the President than is essential or wise is another matter.

It is for Congressional debate and crystallizing public opinion to determine whether safeguarding limitations can be written into the measure without defeating the essential objective. That objective in the final analysis is to prevent any hostile or potentially hostile power or combination of powers from coming into control of the ocean gateways to the Western Hemisphere. On that strategic fundamental we do not see any room for debate.

WAGE INFLATION . . . It should be obvious that as the armament boom gathers momentum the Administration's unwillingness to let prices rise will come into increasing conflict with the willingness to let industrial labor exact higher wages. In long run consequence, it makes no difference from which direction a spiral of price-and-wage inflation begins. If prices rise, wages follow. If wages rise faster than can be justified by increased productivity, prices must rise.

Prices set the pace in the World War inflation, with wages tagging along. In the present war to date the price rise has been very moderate on the average, with speculative tendencies notably subdued. Demands for higher wages, however, are steadily becoming more insistent. And union spokesmen are beginning to argue that a rising cost of living justifies such demands.

Just to keep the record straight, the cost of living of wage earners during the past year has increased by approximately 1.4 per cent on a national average, as reported by The Conference Board. Over the same period average weekly earnings in the manufacturing industries have increased by approximately 4.4 per cent. Wage workers have gained a couple of laps in this race with the cost of living and continue to hold a good lead.

We favor higher wages for everybody—provided they can be paid without setting off a price inflation or wiping out reasonable profits for employers. Moreover, it should be remembered that this is a Government-financed boom in unique degree. The pressure for higher wages is most intense in industries which are glutted with armament orders. In these industries there is no more justification for wage profiteering than for profiteering by the manufacturers. The armament wage bill will be paid by the Government. That's us—all of us.

PLEASANT MIRAGE . . . If the national income can be raised to $85,000,000,000 a year over the next three years, it would be feasible to pay the cost of the national defense program without any further increase in the Federal debt and without "unbearable" taxation.

So says Harold G. Moulton, head of the Brookings Institution, in a report on "Fundamental Economic Issues in National Defense." He points out that if 25 per cent of a national income of $85,000,000,000 were absorbed by taxes to cover all governmental expenditures—Federal, state and local—the relative burden would be lighter than in 1938 when aggregate taxes absorbed approximately 22 per cent of an income of $66,000,000,000.

As far as they go, the estimates are correct. On this plan the projected aggregate governmental tax revenues would approximate $21,250,000,000 a year. But as the Federal Government's budget-guess for the next fiscal year exceeds $17,000,000,000, that amount taken out of total revenue of $21,250,000,000 would leave inadequate tax-money for state and local budgets.

In short, Dr. Moulton's plan is feasible only if sharp economies are made in non-defense expenditures and only if our national defense outlay in coming years is not upped still further. Whether we have reached the peak in national defense budgets is conjectural, if not improbable. And the chances are slim that drastic reductions in non-defense expenditures will actually be effected, if we can judge by Mr. Roosevelt's recent budget.

The object of the New Deal is not only to get armaments but to boost the national income to $90,000,000,000 or $100,000,000,000 a year and to solve the unemployment problem. There would seem to be a fair chance that the Federal budget may be nearly balanced by progressive taxation at just about the crest of this boom—which is to say, almost balanced temporarily.

DUMB BUSINESS MEN . . . Business men seem just too dumb to understand that in public life consistency is no virtue. If Government officials change their minds on economic policy faster than business men can keep up, whose fault is that? To cite a few examples:

There was the case of the oil men convicted as violators of the anti-trust laws for continuing to do voluntarily what the Government had insisted that they do under N. R. A.

And now the steel men are caught flat-footed by the charge that they are hampering the defense plans by failing to expand capacity right and left. It was only a relatively short time ago that critical witnesses at the T. N. E. C. hearings were charging that steel capacity was excessive and that the overhead cost of surplus capacity contributed to over-high prices.

And do you remember when over-production was Public Enemy No. 1 and when price "chiselers" were read out of polite society? Well, times change. The amiable Thurman W. Arnold, head of the anti-trust division of the Department of Justice, now tells us that the Department favors future over-production and looks with a certain affection upon "chiselers." Why? Because over-production and "chiselers" will make for lower prices to consumers.

It's an uncertain and interesting world that we are living in. Who knows? Maybe the time will come when we'll be back under the N. R. A. philosophy and stupid business men will be jailed for over-production or failing to cooperate with their competitors!

SEASONAL CHANGES DISAPPEARING . . . The familiar economic view of seasonal peaks and valleys has gone by the board under the pressure of our growing defense effort. With backlogs huge and rising throughout the defense and related industries, the prospective trend in these enterprises simply is one of sustained advance, retarded only by inability to get materials, rather than by seasonal influences. Even in the building industry, where activity in many areas normally is low during the Winter season, the pressure this year is so great for speedy construction that in the national aggregate there is likely to be an uptrend line through the season.

In the current type of economy, too, the automotive industry, to use another example, is able to effect but few style changes, which tends to eliminate the regular letdown due to model changeovers. And as purchasing power rises in reflection of armament activity, there is less cause for the lighter consumers' goods lines to curtail at a time when public buying usually runs at low ebb as it generally does at this season.

The net effect of this situation on seasonally adjusted economic statistics will be to exaggerate the upturn in months that are dull seasonally and to indicate a setback which is non-existent at times when indices are adjusted downward in normally seasonal months. Accordingly, to escape this distorted picture, unadjusted indices of industrial production will be found more reliable measures of changes from month to month than those which are adjusted seasonally.

As I See It!

BY CHARLES BENEDICT

PLAYING TO WEAKNESS

TODAY we are facing a crisis just as decisive as the struggle for independence in 1776, and the Civil War for preservation of the Union in 1860.

The present battle raging between the exponents of a master-slave economy, as typified by Nazi Germany, and democracy—with liberty and economic justice for all, as typified by the United States—is reaching a climax in the fight over the bill to give President Roosevelt the power necessary to carry out successfully our campaign of defense which includes the British Isles.

It is self evident that the Congressional fight must bring harmful delays.

Admiring the efficiency produced by the autocratic power of the Nazi regime, as so many of the President's more sincere opponents do, it seems strange they should seek to tie his hands in the face of every evidence that we are facing a most critical situation. So critical, in fact, that conservative and judicious Secretary of State Hull finds it imperative to discard the limitations of neutrality and fall back on first principles—the law of self preservation.

The President is asking for no more authority than the executive head of any business would consider commensurate with the responsibility involved. It is clear that our Chief Executive must be able to act quickly on his own initiative, if he is successfully to oppose the power of the dictators.

The people are back of the President, and so is Mr. Wendell Willkie who speaks for a great Republican minority. The opposition includes a powerful group whose leadership the country has consistently refused to accept since 1928 because of errors of judgment, slowness to gauge the trend, inability to act decisively. To this we can now add political partisanship which seems to outweigh all other considerations.

Ambassador Kennedy's speech, which was expected to give comfort to the opposition, on the contrary exposed its weakness. It was full of contradictions and erroneous conclusions.

In the face of his admision that the Nazis had publicly again and again committed themselves to the destruction of our way of life, it is amazing that he should have tried to talk us into ignoring this threat; and minimized our danger because 3,000 miles of ocean lay betweeu us and Europe.

Ambassador Kennedy seems to have forgotten all about the several million Nazis colonized in South America, and the network of strategic so-called "commercial" air bases already established from which attacks against an unprepared United States could be launched if the Nazis win.

He took no cognizance whatever of the well known kind of sabotage and fifth colum activities that would destroy us from within, of which so many disillusioning examples exist.

Only when admonishing those who believe in the possibility of "going to war without using our man power" did he warn that conditions might be different six months hence. He said: "Even if it appears feasible today let us not forget that never in the history of mankind *have events taken place with such lightning speed.*" And yet he refused to anticipate any change that made it wise to vote the necessary authority to the President now;—in this particular case apparently being content to rely on hindsight rather than fore- (*Please turn to page* 494)

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Wisest Market Policy Now

Without decisive bad news, a serious market decline appears unlikely. But we do not see any basis for worthwhile general advance at present and hence we favor holding available investment and trading funds liquid.

BY A. T. MILLER

LAST week the industrial average rather easily surrendered almost all of the ground that had been laboriously gained in the "year-end rally" between December 23 and January 10—but by Saturday, and continuing at this writing, moderately better support was evident; and throughout the downturn the railroad stocks exhibited independent resistance.

The news background of this reaction was made up partly of the successful German air attack on British warships in the Mediterranean and partly of the succession of statements by high Administration officials emphasizing the gravity of the British position and the necessity of all-out American aid as would be provided at the President's discretion under the authority of the lend-lease bill. Superficially, the news could be blamed for the market's reversal.

In reality, however, the preceding rally had already begun to falter as demand refused to follow prices upward and there had been sufficient exhaustion of technical strength to justify at least a minor downward drift without any news excuse. By now investors and speculators are thoroughly aware of all the bleak contingencies in the war situation and in our increasingly rapid transition to a war economy.

It is our conviction that no substantial advance in the average can reasonably be expected at the present time. If that is so, it is not essential to have a conviction—and we have none—as to whether the relatively narrow trading range of the past several months will be continued or whether the intermediate retreat from the November 9 high will be extended soon by reaction through the low that was made just before Christmas.

We continue to feel that this is a market devoid of sustained, major trend; that any spectacular moves in the averages will be caused by decisive and unpredictable news events rather than by more normal business-and-earnings factors; and that it very likely will remain in extraordinary degree a "market of stocks."

Barring decisively bad news, however, it would seem difficult to make out a case for serious decline. The prevailing psychology is one of caution and doubt. Future events may well prove it justified, but until they happen this kind of sentiment is more favorable to maintenance of a trading range pattern than to a significant liquidating movement. In such a setting it is quite possible that a minor reaction through the December 23 closing low of 128.41, Dow-Jones industrial average, touching off stop-loss selling, might prove in short order to be a double-cross that set up another trading rally.

Everybody is on the lookout for the Nazi Blitzkrieg and the American Taxkrieg. "Blitz" means "lightning" and, of course, implies surprise. But no German campaign against England at home or against England in the Mediterranean basin between now and spring could really be a surprise in itself—although the outcome could be a surprise, especially if it went against the Nazis. And coming bad news on corporate taxes has been so widely publicized that it would be somewhat remarkable if the market proved *not* to have discounted it in advance—with at least some chance that the blow may not be as bad as had been feared.

Various of the more striking divergences in the performance of individual stocks in this war market are analyzed in a special article on following pages. Suffice it here to comment briefly on the unfavorable action of the leading automobile stocks in recent weeks and on the lessons that can be drawn from it.

Retail sales of passenger cars in recent weeks have been running at record high levels for this season of the year and production in the motor factories is booming. If you didn't look at the stock market you might be unaware that there is any fly in the ointment. But at their recent lows Chrysler had given up approximately 58 per cent of its maximum recovery from the low of last June to the autumn high and General Motors on the same basis had given up 53 per cent. For comparison, the Dow-Jones industrial average at recent lowest had cancelled only some 35 per cent of its maximum preceding intermediate recovery.

Of course, placement of more than $1,000,000,000 of national defense orders with the motor industry had made it abundantly clear that this industry could not

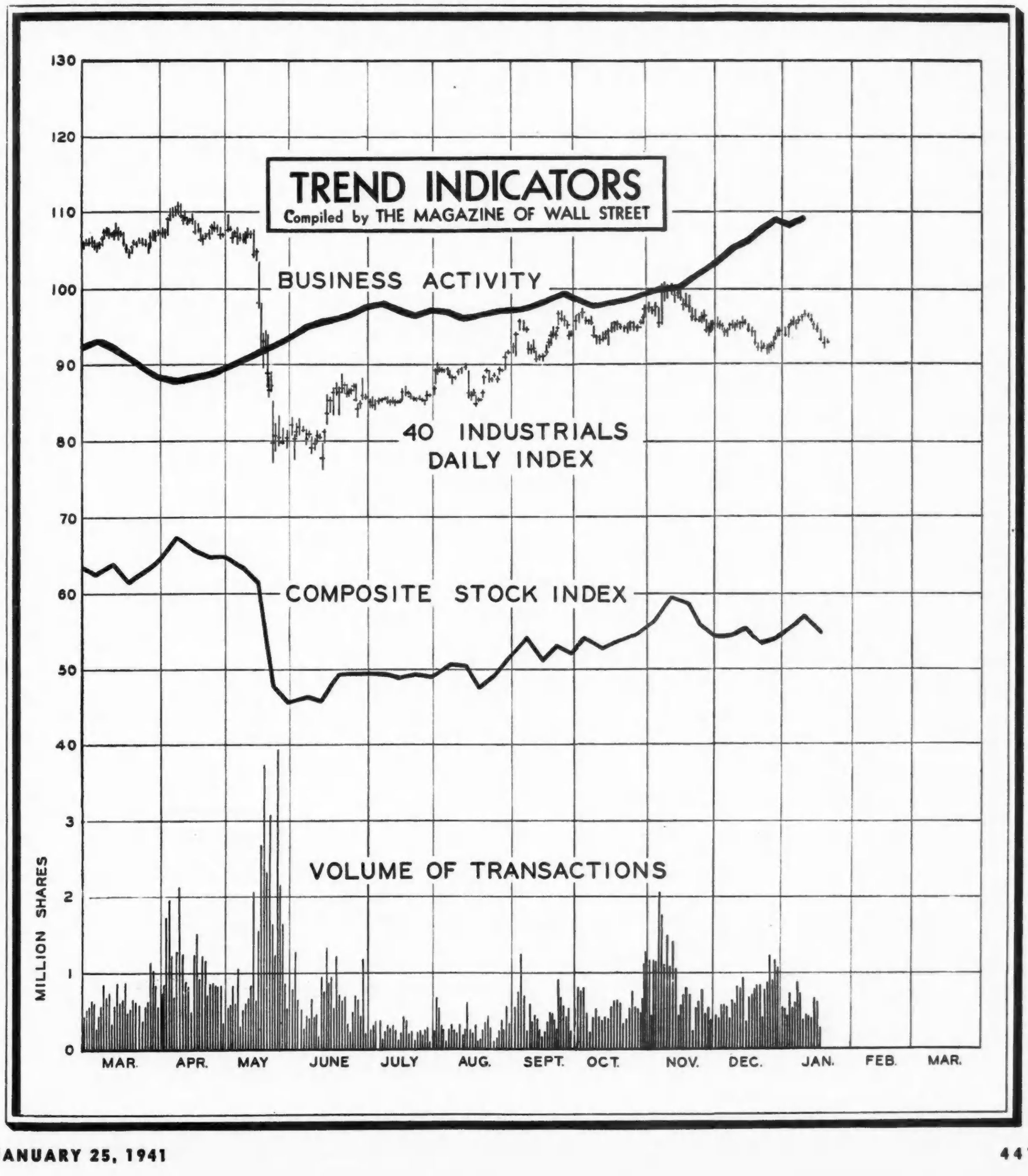
more then temporarily continue its civilian business "as usual." Announcement that the national automobile show will not be held this year merely calls attention to the fact that the industry is getting nearer the point of actual transition to volume output of armaments.

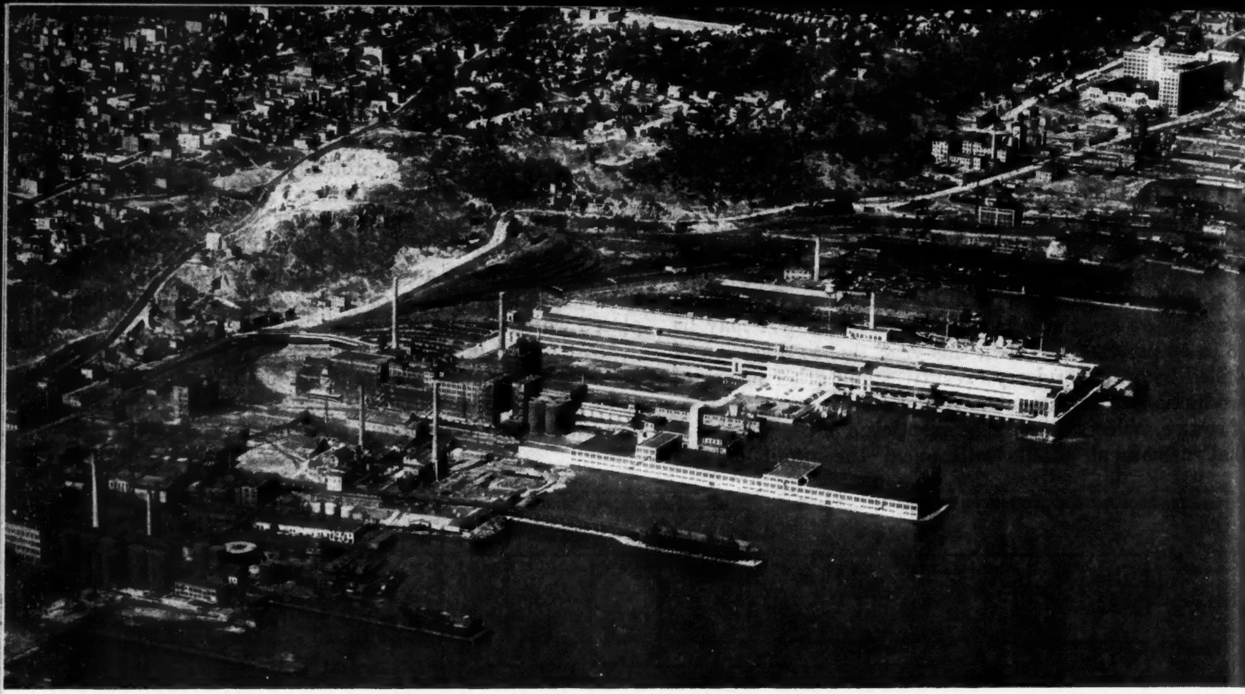
Changeover season late this summer will bring only slight model changes from all accounts, and the production outlook thereafter will be uncertain. Guesses at Washington are that the supply of cars in 1942 may be 25 to 50 per cent less than this year, due to diversion of skilled labor, supervisory executives and other means of production to armaments. Action of the motor stocks, of course, reflects investment skepticism of the possibility that armament profits will equal the profit expectancy on the civilian business that will be displaced.

The question is one of relatives. Of all major industries, the motor industry probably has most to lose by going into the armament business. To mention but one contrasting example, rail equipment securities are doing somewhat better than the average. They probably will not have to give up any rail equipment business in order to make armaments, but even if they did the amount displaced would be comparatively small.

Most of the present cross-trends in the market, however, and especially those on the favorable side, will have to be taken with considerable reserve until the individual applications of forthcoming tax changes can be figured.

—Monday, January 20.





James Sawders from Cushing

Projecting Assured Industrial Operations for 1941

BY WARD GATES

THE volume of new orders being booked by manufacturers is usually the most sensitive and accurate key to the business outlook. A rise in new orders habitually precedes a rise in industrial production. Any persistent falling off in new orders portends a coming decline in production and general business activity.

Given a situation of declining orders and high inventories—such as existed in the forepart of 1937—a high level of production is sustained only as long as it is supported by the backlog of orders previously booked.

A factual examination of the present situation as regards new orders, backlogs, inventories and the production outlook which they indicate is in order—and it can be said at once that it is favorable in unique degree.

As shown by the accompanying chart, based on data collected from a large number of manufacturers by the National Industrial Conference Board, new orders began to rise last spring—in advance of formulation of the U. S. armament program—and by November had made a record high at 208 per cent of the 1935-1939 average.

In contrast, although rising briskly, monthly deliveries at the same time had increased to only 150 per cent of the 1935-1939 average, the gain from November, 1939, being only 14.5 per cent as compared with an increase over the twelve months of approximately 56.4 per cent in new orders.

While no inclusive figures are available on the total backlog of orders at any given time, the above statistics show clearly that through November new orders were at a rate greatly exceeding both the monthly shipments of the reporting manufacturers and the general level of industrial production as measured by the Federal Reserve Board index. This means, necessarily, that existing total backlog of orders was substantially increased in November, as it had been each month for some time.

Confidential and not strictly comparable statistics available to this publication reveal that new orders began to decline moderately in December — both for capital goods and consumer goods — but not enough to make any appreciable dent in the huge backlogs previously built up. These backlogs run into many billions of dollars and unquestionably are now greater than at any previous time in all history. Although neither representative nor inclusive, it is significant to note that the total backlog at the start of 1941 for some fifteen large corporations—for which we either have official figures or

can make reasonably close estimates—was in excess of $7,000,000,000. The bulk of this, of course, was made up of armament orders and British war orders which cannot be filled for some time to come.

As reported by the Conference Board, inventories of representative manufacturers in November had increased to 124.7 per cent of the 1935-1939 average, as compared with 107 per cent twelve months earlier—an increase of approximately 16.5 per cent. Undoubtedly, a moderate upward trend has since continued. But no inventory position is either high or low except in relationship to sales. For example, an inventory of $100,000 worth of goods in the hands of a retail merchant may be excessive if sales are at an annual rate of $200,000 but inadequate if sales are at an annual rate of $400,000.

Inventories Not Excessive

Thus examined, it will be seen that in ratio to new orders the inventories of manufacturers are substantially lower than a year ago and, in ratio to monthly deliveries, are only nominally higher. The figures are as follows: Ratio of inventories to new orders in November was 60, against 80.4 in November, 1939, or a decline of approximately 25 per cent; and ratio of inventories to shipments in November was 83.1, compared with 81.7 a year before or an increase of only 1.7 per cent.

Marked variations in the situation as between durable goods and non-durable goods are worth noting. The Conference Board data provide such a breakdown as regards inventories and shipments but give only one composite figure on new orders. Nevertheless, the available information from this and other sources is more than ample to show that the most dynamic change in the picture has centered in durable goods in general and durable capital goods in particular.

Manufacturers' shipments against orders for durable goods for the most recent month available (Conference Board data) were at 168 per cent of the 1935-1939 average, a gain of 24.4 per cent from a year ago. At the same time shipments of non-durable goods were at 130 per cent of the 1935-1939 average, a gain of only 7.4 per cent from a year ago.

Moreover, while manufacturers' inventories of durable goods were up about 18 per cent, as compared with increase of only 13.9 per cent for inventories of non-durable goods, we again get a very different picture when the figures are adjusted to rate of shipments. Thus, in ratio to monthly deliveries, inventories of durable goods in November were down 5.3 per cent from a year ago, while inventories of non-durable goods on the same basis had increased by approximately 6 per cent.

Carrying the comparison further, an index of capital goods new orders compiled by the Institute of Applied Econometrics reveals a mid-December peak some 25 per cent above the previous high made early in 1937 and more than 50 per cent above the high attained in the summer of 1929.

On the other hand, the same source reveals that new orders for consumers' general merchandise have not yet significantly or more than briefly exceeded the levels reached at the height of the inventory expansion of early 1937—although the public's consuming demand for such goods has recently been at levels ranging from 12 to 18 per cent above the best levels of 1937—which means new all time highs by, roughly, the same percentages.

The significance of this is that inventory buying in consumption goods and semi-durable consumer goods has persistently tended to keep fairly closely in line with actual consumer demand or to lag behind it. Since the outlook is for a gain of 1,500,000 to 2,000,000 in total employment this year, a substantial rise in national income and only a modest rise in the cost of living, it seems quite certain that new orders placed for consumer goods must remain at a generally high level for an indefinite time to come. Therefore, the reported downturn in such orders in recent weeks—carrying them again below the line of indicated public demand—can only be regarded as a temporary reaction which will very soon be followed by renewed rise.

The most important present factor in the production outlook for durable capital goods and armaments—the two types being substantially inter-related in the present economy—is simply the matter of capacity. For this reason, variations in new orders—whether up or down—can have no significant bearing on the production trend for a great many months to come. This point can be brought home by two striking examples provided by the aircraft and machine tool industries.

Even allowing for continuous expansion of facilities, it would probably take the aircraft industry considerably more than two years to fill the orders now on its books; and machine tool makers on the average could operate at capacity for at least a year without any new orders.

In these and similar situations neither a rise nor a

Some Estimated Order Backlogs

Bethlehem Steel	$1,200,000,000
New York Shipbuilding	600,000,000
General Motors	540,000,000(A)
Newport News Shipbuilding	500,000,000
General Electric	280,000,000
Curtiss-Wright	550,000,000
United Aircraft	430,000,000
Douglas Aircraft	350,000,000
Martin	323,000,000
Consolidated Aircraft	320,000,000
Lockheed	280,000,000
North American	210,000,000
Boeing	205,000,000
Westinghouse Electric	215,000,000(B)
Bendix Aviation	186,000,000
Baldwin Locomotive	180,000,000
Bath Iron Works	150,000,000
Electric Boat	112,000,000
American Locomotive	135,000,000(C)
American Car & Foundry	115,000,000
Packard Motor	235,000,000(A)
Ford Motor	125,000,000(A)
Chrysler	100,000,000(A)
White Motor	51,000,000(A)
Vultee Aircraft	90,000,000
Brewster Aircraft	110,000,000
Grumman	60,000,000
Bell Aircraft	60,000,000

(A)—Armament orders only. (B)—Company figures. (C)—Including Canadian subsidiary.

decline in new orders during the forepart of the year would affect 1941 industrial activity one way or the other. Indeed, inability to get deliveries except at very distant dates is probably the chief reason for the flattening out in new capital goods orders in recent weeks.

Actual Government expenditures for national defense may approach $5,000,000,000 in the present fiscal year, ending next June 30—assuming progressive rise each month. The program outlined by the President calls for increasing this to $10,000,000,000 in the fiscal year starting July 1. It may or may not be possible to spend quite that much, depending on the speed with which armament-producing facilities can be expanded.

We cite the familiar figures here because it is not possible for the average mind to visualize what they mean in stimulation of industrial activity unless they are compared with boom-year output figures in the areas of production wherein the chief impact of the armament demands will be felt. For example, the 1929 output of producers' durable goods was $6,908,000,000 (in terms of 1929 prices), according to the National Bureau of Economic Research; the 1929 volume of heavy engineering construction was approximately $3,950,000,000; and the 1929 volume of all types of consumers' durable goods was approximately $9,900,000,000.

It need hardly be said that only a relatively small proportion of the vast total of manufacturing facilities designed for production of civilian goods can be converted to the production of armaments—and even where some degree of changeover is possible without complete re-tooling, as in some plants now making various types of consumers' durable goods, the transition will take time.

For this reason and because addition of new facilities can only gradually expand total productive capacity we have put behind the phase of rapid monthly advances in aggregate production. As we see it, therefore, the upper limit of any first half-year rise in the Reserve Board index is probably in the vicinity of 141-143. The estimated figure for December was 136.

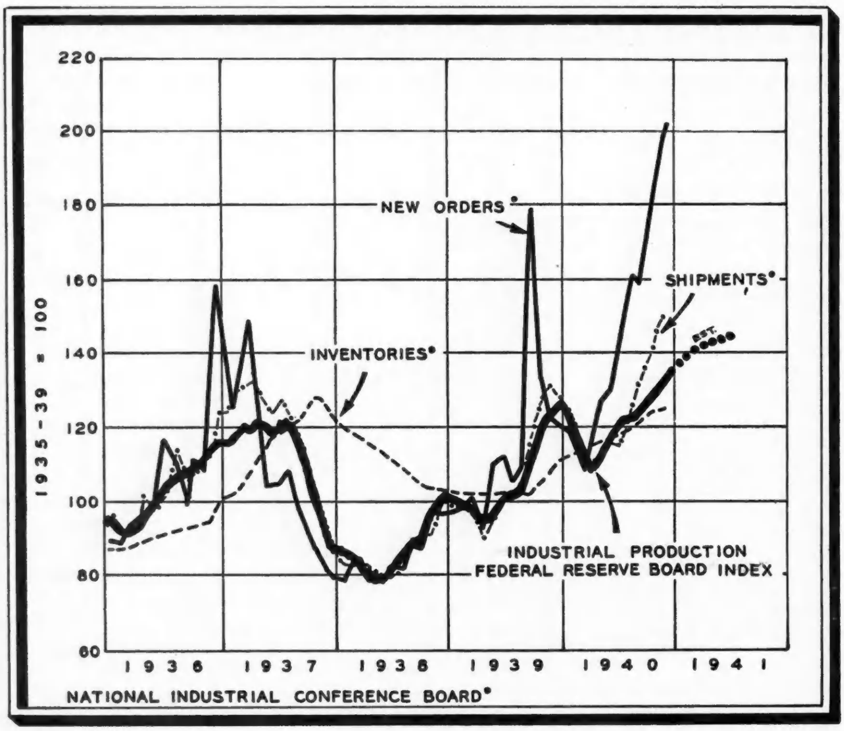
Completion of new facilities should tend to lift the second half-year production ceiling but, working in the other direction, there will probably be some offset in the form of reduced civilian production to the extent that mechanical facilities, skilled labor and key materials are shifted to armament needs.

Only Gradual Production Rise Possible

The largest backlogs are, of course, in industries largely engaged in armament orders and war orders. They include aircraft, shipbuilding, machine tools, steel, rail equipments, electrical equipments, non-ferrous metals and fabricators thereof, motors and motor parts makers, and heavy construction.

Although very few reliable statistics are available as to the dollar amounts of these backlogs, we make the following rough estimates: Aircraft, $3,100,000,000; steel, including shipbuilding contracts, $2,000,000,000; shipbuilding, exclusive of steel companies, $1,500,000,000; machine tools, $500,000,000; rail equipments, $500,000,000; motors and accessories (armament orders), $1,250,000,000; electrical equipments, $700,000,000.

In an accompanying table we present backlog estimates for a number of individual companies. Because of great variations in individual situations as regards relationship between backlogs and capacity, prospective increases in capacity and rate at which new orders are continuing to enlarge backlogs, it is not possible to project present backlogs in terms of so many months of future production. To cite an extreme example, total consolidated bookings of Baldwin Locomotive may be estimated at around $180,000,000 at the start of the year. At the recent rate of shipments, it would take three years to work off this backlog, but volume of new orders has continued greatly to exceed deliveries.



The crux of the matter is that for a great many manufacturing enterprises capacity operation is assured through the entire duration of the armament-war-orders stimulus. We have every reason to assume this will be at least several years. It may be more.

And while heavy industry has the dynamic role in this picture, the national defense expenditures are by no means confined entirely to it. A

(*Please turn to page* 494)

Whether we now have a bull or bear market is a moot point, but beyond argument is the fact that the trends underneath the composite trend are extraordinarily mixed.

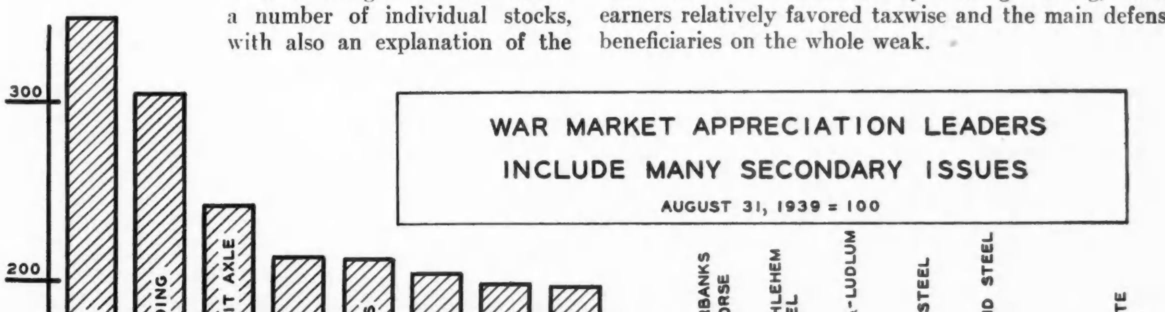
Measuring the Surprising Divergences in Individual Stocks

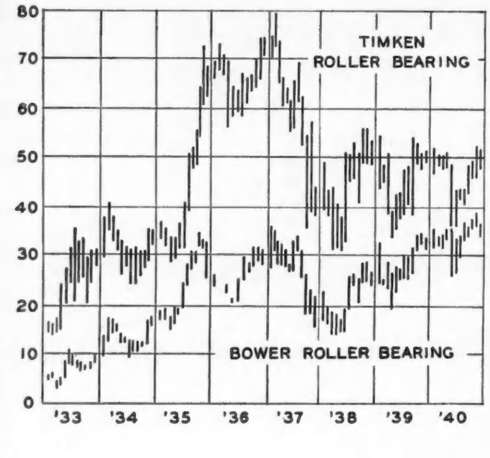
BY FREDERICK K. DODGE

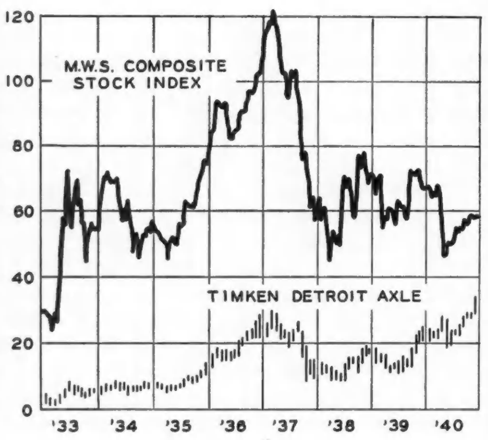
As controversy continues on whether or not this is a bull or bear market, with technical Dow theorists still maintaining that the major trend is downward, one observation is inescapable—namely that the market during the past two years has been and remains in a broad *trading range,* so far as the industrial average is concerned. The more significant moves are of intermediate character in scope and duration rather than sustained major trends, and without exception the decisive changes are related to foreign news.

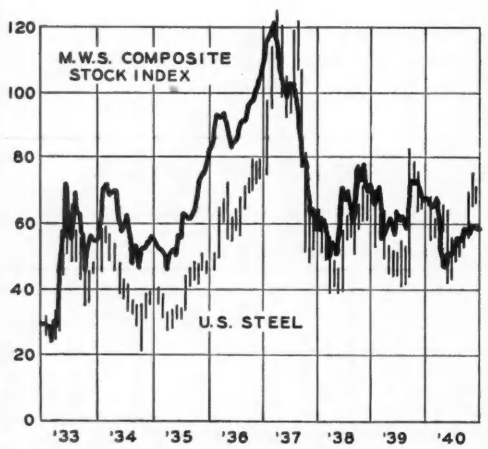
The most significant factor, as always in a trading-range type of market, is the divergence in trends among individual issues. It is a truism that the market is always a market of stocks, rather than a stock market, but the divergences today are exceptionally numerous. It can be said, therefore, that the market is made up of three general types of stocks: bull market stocks, bear market stocks and trading range stocks that habitually move in line with the average. The current study initiates a series covering technical action of a number of individual stocks, with also an explanation of the statistical and fundamental factors which are responsible for the trends.

By no means is it our thought that the trends shown in the various examples used will necessarily continue. It is likely, in fact, that coming tax changes, war developments and variations in business trends will bring wide readjustments or even reversals in trend of some issues. For example, it is to be emphasized in studying our bar chart covering some of the leading bull market issues, that the upward action of such stocks as Savage Arms, N. Y. Shipbuilding, Ex-Cell-O and, in fact, virtually all the rest of the issues, is based on the war stimulus. Removal of this stimulus would crumble the price foundation for most of these issues. Similarly, tax changes could be highly influential. For example, there is current talk of rearranging the tax base to relieve the principal sufferers—the light consumers' goods lines. This could take the form, say, of confining the tax base to earnings rather than invested capital, which would completely reverse the current situation by making the big, stable earners relatively favored taxwise and the main defense beneficiaries on the whole weak.









Nevertheless in speculation and investment it is more prudent to attempt to ride with a currently indicated trend than to buck it. At any given time the odds are that individual divergences in trend—favorable or unfavorable—will continue, perhaps for a short period, perhaps for a long period. An uptrend stock will, of course, react if affected by pronounced weakness in the general market but will react less than the average. Past and current technical patterns of individual issues, therefore, merit respectful attention until the reasons behind those patterns change. A change in the earnings-growth prospect of any issue is reflected in the technical action of such issue before it is otherwise recognizable by the average investor or trader.

The bar chart on appreciation stocks is particularly revealing from the standpoint of including so many secondary issues. This is no reflection on quality of the issues, but rather on market prominence, although there also are included several prominent leaders, such as United States Steel and Bethlehem Steel.

One of the most interesting of the accompanying charts shows the price action of Bower Roller Bearing compared to Timken Roller Bearing. The former has been in a distinct bull trend of its own in recent years regardless of the general market trend. Pulling away from its puny depression price, the stock early in 1935 surpassed the vital 1934 peak, and on penetrating its 1929 high of 22½ later in 1935, quickly advanced in unresisting territory to a high of 35. The subsequent digestion of this phenomenal rise carried the stock back approximately to its 1929 high, from which there was a quick rebound. Near the top of this rebound a several months congestion area was established, following which the old highs were penetrated in a sensational rise to 37, representing an all-time high up to that time. The filling-in period which followed settled significantly around the previously mentioned congestion area, and in the summer rally of 1937, technical strength was clearly demonstrated in a resilient recovery into the high zones.

From a modified head-and-shoulders formation, the stock then began a long advance rivaling the 1934-35 rise. Basing around the 25 range (this base held in the May, 1940, general market collapse) the stock soared back to the range of previous highs, based again slightly under them and recently penetrated all preceding highs with a push through 38. Thus, the general long term technical picture of strength is obtained—trends to successive tops and solid bases punctuating the advance.

By contrast, the trend of Timken Roller Bearing, in recent years at least, has been along much less favorable lines. Thus, after the 1935 and 1936 rise, in which the issue participated vigorously, the stock reverse-based in 1938, constructing a thick price structure through which it has been unable to penetrate in the two subsequent upthrusts in 1939 and 1940. The long term trend from the 1937 top has been one of progressively lower intermediate move peaks, with inability in the last three years even to approach the 60-70 crust of resistance.

The fundamental explanation of these varying moves lies largely in earnings trends and growth. Earnings of Bower Roller Bearing for 1940 were over four times the figure for 1929. In the latter year net income equaled $0.84 a share of capital stock, while for 1940 it is estimated to have exceeded $3.50 a share. Similarly, the $3

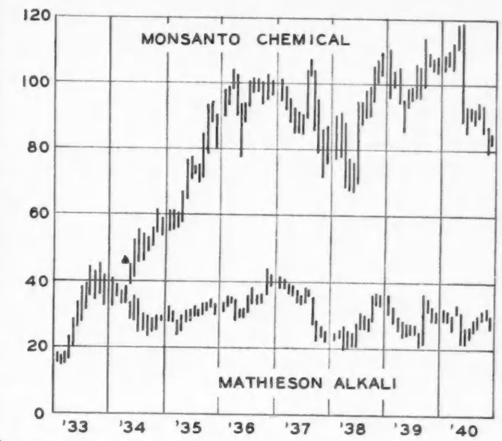
dividend paid in 1940 compared with no payments at all in 1929. By contrast, Timken Roller Bearing's estimated net income around $3.75 a share in 1940 was materially under that of $6.20 a share (before extraordinary charges totaling $0.32 a share) for 1929. Timken's dividend in 1940 totaled $3.50 a share vs. $3.00 in 1929. Translating these trends into price per share of stock, Bower Roller Bearing now is selling about twice its 1929 high, while Timken Roller Bearing is selling at less than half its 1929 high.

Price actions of these two stocks provide the basis for a highly significant lesson. Stated in simple terms this is the fact that, given a generally rising market trend, a secondary issue of an industry very often will experience a considerably greater percentage appreciation than the leader itself. In the instance of Bower Roller Bearing, however, due credit must be given to the large earnings growth factor. The company is the second largest in its field, but it is materially smaller than its principal and strongly established competitor, Timken Roller Bearing.

Turning to another "Timken"—Timken-Detroit Axle—the reader will note, in the chart showing the price action of this stock compared with the trend of THE MAGAZINE OF WALL STREET's 309 stock index, a distinct bull market pattern irrespective of trend in the general market. From its three-year rut, represented by a high of 8½ and a low of 1½, the stock pulled up sharply toward the latter part of 1935, based in the 15-20 range during the first half of 1936 and then rebounded from this accumulation crust to approximately 28. This area represented a peak for almost four years, as shown in the long, inverted head-and-shoulders formation in the chart from the beginning of 1937 to the latter part of 1940. The decisive penetration of this range brought clear sailing up to around the 1929 high of 34⅞, which represents the only resistance plane for the stock to pierce for technical indications of higher levels.

Once more, fundamental explanation appears in long term earnings growth. While 1929 net income equaled $1.28 a share, net income for the twelve months ended June 30, 1940, equaled $3.69 a share, after an excess profits tax reserve of $1.11 a share. Dividends paid in the full year 1940 totaled $3.25 a share, or slightly over four times the 1929 payments of $0.80 per share. The latest earnings spurt of the company, as a matter of fact, reflects the results of two decades' continuous experimental research and development work on the Army's mechanization and motorization problems. In fact, it is reported that at the start of our arms program Timken-Detroit Axle was the only manufacturer in its field in a position to begin at once on the output of certain parts.

The chart comparing the movement of U. S. Steel with that of our composite stock index shows a good example of a trading-range type of stock which usually moves in line with the averages. The reason for such action is that being important and active the stock is part of the basic composition of every industrial average, and it is therefore a section of the averages themselves. In some averages the stock is weighted more heavily than most of the other issues included. As a heavy industry issue, the stock has the typical action of tending to exceed the peak of a major rise in the averages and the nadir of a major decline. Recently the stock has been selling at a substantial spread (*Please turn to page* 492)



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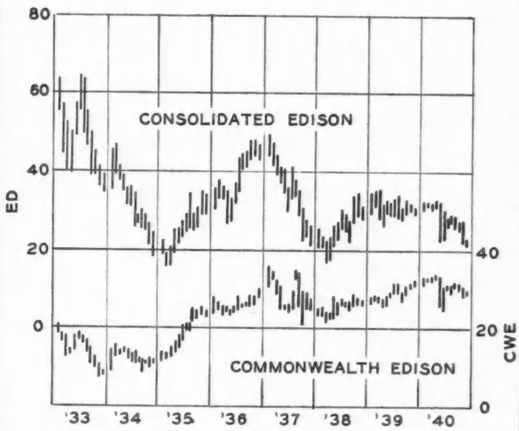
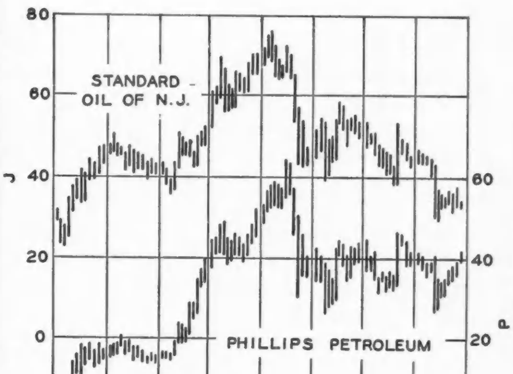
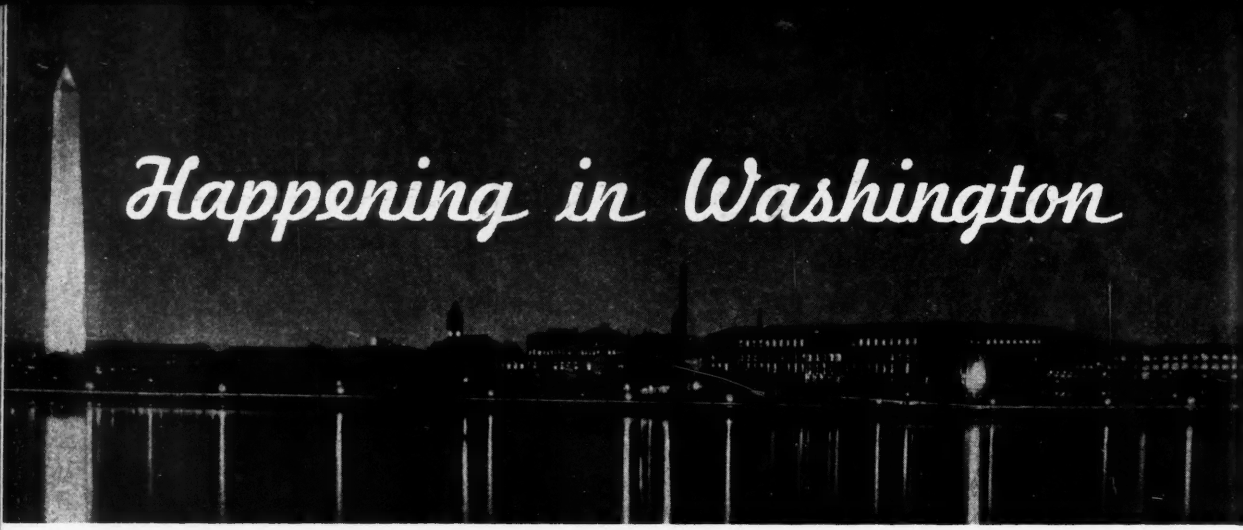






Industrial Priorities

BY E. K. T.

THAT private industry must give way to considerations of all-out defense is taken for granted since President Roosevelt told the nation that it must drop the notion that is can have business as usual in this crisis.

This means priority of defense orders, but the word "priority" has a special technical meaning and refers to a specific order requiring a contractor to deliver certain goods on a certain date. So far no priority orders have been issued, and defense contracts are being speeded by a more or less voluntary system of preference ratings which amount to the same thing except in a legal sense.

While defense orders come first, present plans for getting priority do not contemplate definite rationing of supplies to civilian uses, a limitation on the amount of consumer goods produced, or prohibition against the use of materials for non-defense wants. These things may come later if raw material supplies and fabricating plants become too limited, but for the near future, at least, it is contemplated that American industry can meet all civilian and defense requirements, though the former may have to wait at times. In other words, consumer goods will have to take what is left in the way of materials and manufacturing capacity after defense orders have been filled, but there probably will be enough capacity to supply both needs.

During the World War, it is said, the Government prohibited use of steel stays in ladies' corsets, and thus saved enough steel to build a battleship. Nothing of the sort is contemplated now. It may be that manufacturers of non-defense articles will have to wait some time for adequate supplies of steel and many other materials, but the Government will not prohibit them from using the material if they can get it. Suppose, for example, defense orders take 40 per cent of total steel-producing capacity for a year, the Government will not attempt to allocate the remaining 60 per cent among civilian uses so long as the Government gets its 40 per cent on schedule. There is talk that the public will not get all the automobiles, refrigerators, aluminum pots and pans, and other non-essential articles that it wants because of defense requirements, but if this comes about it will not be through definite orders limiting the production of such goods, but because manufacturing facilities are too busy on defense orders—the automobile assembly lines and the kettle casting apparatus would be operating near capacity on airplane parts which would have preference.

European countries at war have had to ration civilian use of almost everything, but this is due in large part to difficulties in importing and shortage of foreign exchange. We might come to that, on a lesser scale, in case of actual war, but there are no plans for reviving the meatless and gasolineless days of the World War, and such bridges will be crossed when we get in sight of them. The present objective of the priorities system is not to curtail civilian industry but to make it secondary to defense orders and to keep defense orders from getting in each other's way. Right now this second objective is more important than the first.

The President's order setting up the Office of Production Management includes a Division of Priorities, headed by E. R. Stettinius, Jr. Advising him is a board of six officials of the OPM and the Defense Commission. Under him are asistant and deputy directors, industry and labor consultants, and five general sections dealing

with metals and minerals, chemicals, aircraft, tools and equipment, and general products. As necessity arises there will be industry committees under these sections. This new Division of Priorities supplants the old priorities board of the Council of National Defense and is organized to act more efficiently, though its legal authority is the same. Its first job is to work out schedules of production for the many Army and Navy contracts and to see that the hundreds of sub-contractors and their suppliers schedule their deliveries in such a way that manufacture and assembling can proceed smoothly. This is first an intra-Government job, and if the contracting officers can't agree on the order of precedence, Stettinius has the final say. Next step is to give this information to the contractors by assigning preference ratings to various parts of their orders. If the instructions were simply to rush all Government orders there might as well be no priority system, so different types of equipment are given preference ratings of graduating value, such as A-1, A-2, etc. The primary contractor has authority to pass these preference ratings on to his sub-contractors and suppliers all the way back to the basic raw material. When any contractor down the line finds that he is getting so many high preference ratings that he can't fill all orders on schedule he complains to the Priorities Division and an adjustment is made.

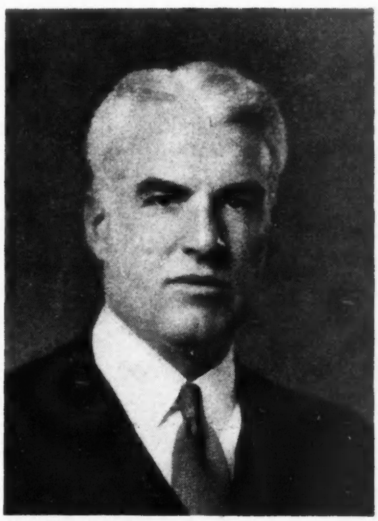
This preference rating system is purely voluntary, and so far it has worked well. But Congress gave the President authority, which will be delegated to Stettinius when needed, to issue mandatory priority orders on any contracts let by the Army, Navy, Coast Guard, Maritime Commission, Coast and Geodetic Survey, and National Advisory Committee for Aeronautics. (Other Government orders, even though related to defense, must depend on voluntary preference ratings under present law, although the Stettinius division has authority to work with other Federal agencies in straightening out their delivery schedules.) The fact that this mandatory power exists may make its use unnecessary. If a contractor or sub-contractor refuses to adhere to the suggested preference rating schedule and fills non-defense orders first, he will be confronted with a mandatory priority order. If he then tries to cancel his Govern- (*Please turn to page* 496)

CAPITOL BRIEFS

Lease-lend bill for aid to Britain will be approved substantially in present form because Congress can't figure out any better way of accomplishing the objectives. Powers the President asked will be curtailed and limited somewhat but not vitally, and it is pretty clear the President asked for more than he needed in order to have room for compromise.

Rough handling is in store for all who oppose all-out defense and aid to Britain regardless of consequences. Roosevelt is prepared to get tough, and others in the administration are taking their cue from him. The term "appeaser" is being thrown around indiscriminately and is taking on a more opprobrious connotation than the war-time "slacker." Roosevelt will not try to "appease" the non-interventionists, and all means of official and unofficial propaganda will be used to let the nation know it is irrevocably committed to the British cause.

Budget figures mean almost nothing. They estimate defense expenditures at $10.8 billion next year, but actually the money will be spent as fast as it can be paid out for deliveries. Additional authorizations for our own defense program plus British orders will far exceed that figure, and the only limit is the rate of production. And production of defense material will be speeded up by using every available plant so that a year from now the government may be putting out $2 billion per month in one way or another.



Wide World Photo

E. R. Stettinius, Jr., head of the new Division of Priorities of O. P. M.

National income is estimated by Government officials at $80 billion or more in 1941, around $90 billion in 1942. This would mean unprecedented boom times for every sort of business except that it is caused by non-economic defense activity which is not the basis for a continuing prosperity. Business activity will be high, of course, in non-defense lines but there may not be much profit in it what with high costs, short supplies, and the Government keeping prices down one way or another. And Federal tax schedules are designed to syphon most of the increased national income back into the Treasury where it came from.

U. S. in the war? Officials say that question will be answered by Hitler. If and when he says our aid to England is an act of war, then we will be in. But such things don't follow rules these days; e.g. Japan and China are not "at war," and Germany is not at war with Greece though the Axis partner Italy is. Betting is it will be at least a year before actual participation by U. S. troops will help England and perhaps six months before we commit an admitted overt act of war such as convoying British ships. But administration is moving to get on a war basis, psychologically as well as materially, as fast as possible.

Credit controls urged by Federal Reserve to forestall potential inflation meet little response in Congress and other sectors of the administration and therefore are unlikely to be adopted soon.

CANADA—

Object Lesson in Defense

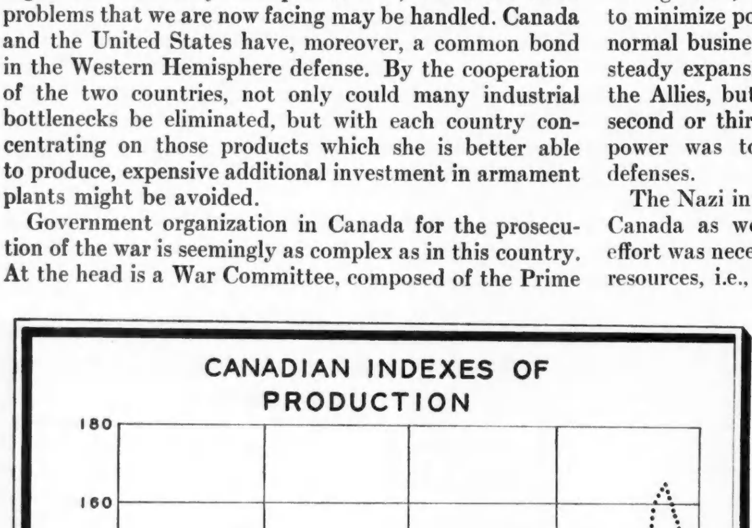
BY V. L. HOROTH

THE United States has a real and direct interest in the effects of the war upon the Dominion of Canada, by virtue of our close cultural, political and economic ties. The war has materially added to Canada's industrial capacity, and this will naturally affect our future trade relations with her. Canada's position within the British Empire—as she is becoming its arsenal—is being greatly enhanced. We have also a profound interest in Canada's progress and experience in mobilizing her resources for national defense, since they will serve this country as a guide to what may be expected here, and how similar problems that we are now facing may be handled. Canada and the United States have, moreover, a common bond in the Western Hemisphere defense. By the cooperation of the two countries, not only could many industrial bottlenecks be eliminated, but with each country concentrating on those products which she is better able to produce, expensive additional investment in armament plants might be avoided.

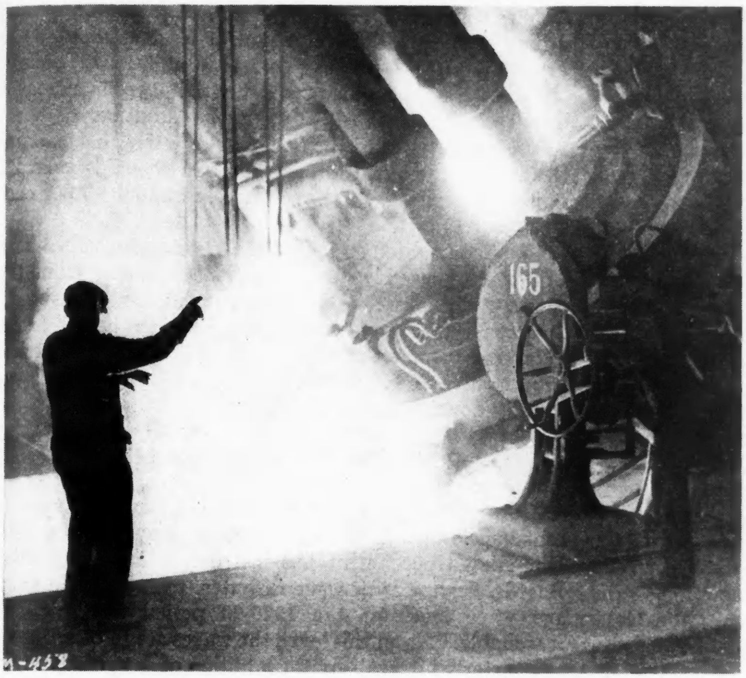
Government organization in Canada for the prosecution of the war is seemingly as complex as in this country. At the head is a War Committee, composed of the Prime Minister, the leader of the Government in the Senate and the Ministers of National Defense, Justice, Finance, Mines and Resources, Munitions and Supply, and Air Defense. During the first stage of the war, for about nine months from September, 1939, to the collapse of France, special economic defense committees and boards, such as the War Finance Committee, the Fuel and Power Committee, the War-time Prices and Trade Board, etc., were delegated to exercise close supervision of the economic system.

In general, war efforts in this first period were planned to minimize post-war readjustment and interference with normal business as little as possible. There was to be a steady expansion in the output of military supplies for the Allies, but the peak was to be reached only in the second or third year of the war. Conscription of manpower was to be limited to the manning of home defenses.

The Nazi invasion of France brought the realization in Canada as well as Great Britain that maximum war effort was necessary—a complete mobilization of national resources, i.e., of industrial capacity, labor force, transportation facilities, etc.,—if victory was to be won. The National Resources Mobilization Act passed last June provided the legal basis for such maximum war effort, by drafting all human and material resources of the nation for defense.



In the meantime, as Government control of the economic system was extended and grew more complicated, various boards established since the outbreak of the war were given greater power over the national economy. One of the most important is the Wartime Industries Control Board, which wields almost unlimited power over steel, machine tools, power, fuels, timber, and other industries. This board also handles the priorities. The work of the Ministry of Munitions and Supply was decentralized and taken over by several non-profit corporations, headed by prominent business men. One of these corporations buys machine tools, another supervises



All photos in this article courtesy Canadian Bureau of Public Information—Passed by Censor.

Molten steel for heavy guns.

the construction of armament plants for the British, while another controls the output of training planes.

With total war effort launched with legislative support and spurred by the Canadian and British Government orders for every kind of supply — estimated to have reached some $850,000,000 by the end of 1940—and the outlay of some $250,000,000 for new industrial plants and equipment, the Dominion's industrial activity established new high records almost every single month since last May. By November, the index of industrial production stood at 170 (1926=100) as compared with 148 in June and 128 in August, 1939.

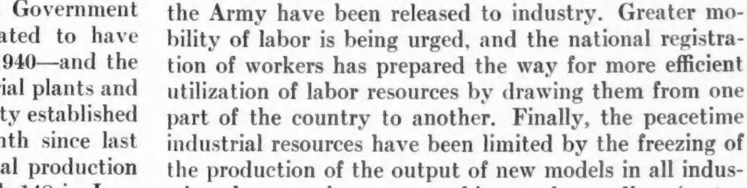
There is hardly any branch of industry which has not reported an accelerated pace in output. Machine tool and steel industries, operating on a twenty-four hour schedule, have reached practical capacity, estimated in the case of steel at about 2,300,000 tons. The automobile industry, with a substantial part of its capacity engaged in the output of mechanized war equipment and lately extending also to the production of tanks, has nevertheless been able to turn out passenger cars, trucks and tractors in surprising quantities. In the aircraft industry, it has been estimated that, with several new plants operating, some 12,000 workers are now employed, while production —principally of combat and training planes—is at a rate better than 100 per month. Chemical industries have also had extraordinary expansion since the outbreak of war, and fifteen more new factories, involving an expenditure of over $70,000,000, are planned or under actual construction, mostly in the Prairie Provinces.

Indications are already appearing, however, that after half a year of full war effort, the production of capital goods industries in Canada is close to capacity and that further gains will be limited until new plants come into production. The industrial effort of Canada is demonstrated by the fact that the contribution of the manufacturing industries to national income is now about twice as large as ten years ago.

As the approach to full employment in the war industries manifested itself by various strains—by industrial and raw material bottlenecks and shortages of skilled labor—Canada has been for some time preparing, discussing and passing legislation leading to the augmenting of the national capacity for the production of war goods by (one) the extension of working hours, (two) a greater intensity of work, and (three) the diversion of productive capacity from peacetime into wartime goods. Canada is thus gradually passing into a new and more advanced stage of war effort.

Even last November, the Canadian Minister of Labor proposed an extension of working hours in the war industries from 44 to 48 hours. Greater efficiency is being encouraged by mechanization and by more efficient organization. Training of new workers has been going on for some time, and skilled workers serving in the Army have been released to industry. Greater mobility of labor is being urged, and the national registration of workers has prepared the way for more efficient utilization of labor resources by drawing them from one part of the country to another. Finally, the peacetime industrial resources have been limited by the freezing of the production of the output of new models in all industries that require new machine tools or dies (motor vehicles, radios, refrigerators, etc.). Steel purchases have been limited to actual current requirements, and the buying of steel for stocking up has been prohibited.

With the war effort being primarily a problem of productive organization and labor relations, the role of finances and fiscal policies in war is basically that of siphoning the national income from private to Government uses for the prosecution of the war. There are three ways of diverting labor and machinery into war effort,—taxation, borrowing, and inflationary credit expansion. From the very beginning, the Canadian Minis-



ter of Finance has been for the pay-as-you-fight policy, for financing the war by taxation and by borrowing from public savings. A compromise, however, was made in the early war months. With one-fourth of the industrial capacity idle, it was decided to expand credit by borrowing $200,000,000 from the banks, adding thereby to the aggregate purchasing power, rather than drawing upon public credit.

With stress on financing by taxation, Canadian taxes were raised shortly after the start of the war and again last June, so that the rates stand considerably above ours. Individual income tax rates start at 6 per cent, with personal exemptions of $600 for single men and $1,200 for married men. In addition, there is a 2 per cent defense tax on gross incomes, designed to catch certain types of income that escape normal rates. On corporations the excess profit tax is 75 per cent and the combined corporate normal income tax and excess profit tax is not to be less than 30 per cent of net income.

Of the $500,000,000 raised thus far by borrowing, a $200,000,000 loan bearing 3¼ per cent was floated in January, 1940, and a $300,000,000 loan with 3 per cent coupon was raised last September. No new long-term loans are contemplated before this Summer, the Government to rely meanwhile upon short-term financing.

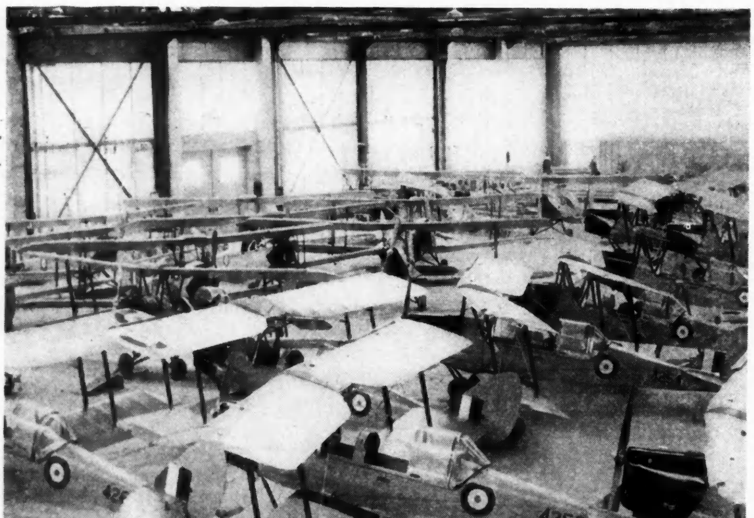
Government expenditures are running at present at the rate of about $1,500,000,000 per year, of which war expenditures proper are about $1,000,000,000, or twice as much as in 1918. The budget for the new fiscal year starting April 1, is expected to exceed $2,000,000,000 which would make it the highest in the history of Canada. With national income in 1941 probably around $5,500,000,000 on the basis of present prices, roughly 40 per cent would thus be diverted into Government uses. This would be equivalent to an American budget of about $30,000,000,000.

If some 60 per cent of the Canadian national income—or about $3,500,000,000—is permitted to go into private channels in 1941, it would be considerably more than during the depression years and at least as much as in the relatively prosperous years 1936 and 1937. This is, of course, quite possible with industrial payrolls increased by at least one-third through the addition of some 350,000 workers since the outbreak of war. This explains the excellent demand for consumption goods, the output of which is reported to have increased about 10 per cent last year.

One important task before the Canadian Government will be to prevent boom conditions resulting from the competition between the Government and consumers for goods. One way to do this is to place heavy excise taxes on consumers' goods (automobiles, radio, electrical equipment, etc.), as the Canadian Government has already done.

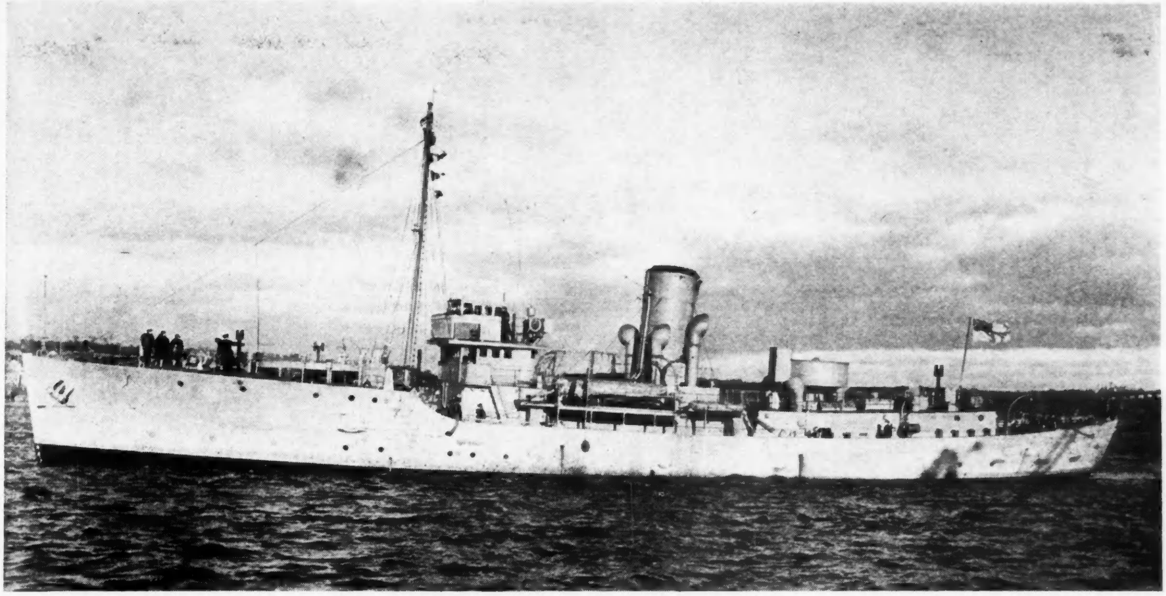
Restricting Civilian Consumption

More general measures are to restrict expenditures on consumption goods through the control over wages. The Dominion Government has instructed the Conciliation Boards, dealing with wage disputes, to regard the average wage level for the 1926-29 period as "fair and reasonable." From this level, the wages are to be adjusted at quarterly intervals by the addition of flat-rate bonuses—meaning that the higher-paid workers will get the same amount of dollars as the lower-paid worker—whenever the official cost of living index shows changes exceeding 5 per cent. Wages in the war industries are some 10 per cent higher than before the war, while the cost of living index is still nearly 13 per cent below the 1926-1929 period. Control over prices of all necessities (including even those imported) has been vested in the Wartime Prices and Trade Board. Since the war started, Canadian wholesale prices advanced about 15 per cent and the cost of living about 6½ per cent. A fine of $500 is to be imposed on firms found guilty of enticing workers away from other firms engaged in war production.


Hundreds of these light training planes are rolling off Canada's production lines for use in the Commonwealth Air Training Plan.

Imports, being tantamount to "laying claim on external resources and manpower" offer still another approach through which the expansion in output of wartime goods may be accomplished. The fact that Canada has been reported to be increasingly dependent upon imports from the United States may be taken as another indication that she is nearing the condition of full employment. In the three months ended last November, the Canadian imports from us averaged nearly $70,000,000 as compared with a monthly average of about $40,000,000 in the two years 1937-38.

Contrary to general opinion, Canada prior to the great depression was one of the least self-sufficient countries in the world. Only in combination with our raw material resources,—iron and coal,—and with the help of our capital goods,—machinery and machine tools, which permit her to utilize her specialized resources of non-ferrous metals, minerals and tim-



By May, Canada will have a fleet of more than sixty of these "Corvettes" for convoy and anti-submarine duty.

ber, could she become a great industrial nation. In past years, Canada normally settled her current payments in the United States with pound sterling exchange earned in her trade with Great Britain and the rest of the world. Most of these credits, however, are no longer available in the form of free pound sterling exchange convertible into dollars. Hence, every dollar that Canada earns through exporting to us, through tourist business or through shipping us her full production of gold, is an important support to her war industries.

The Exchange Control Board, of which there is no counterpart in this country, is the organization which handles Canada's number one problem of foreign exchange and capital control. Many measures aimed at the conservation of American dollars have been passed, such as restricting the travel of Canadians in this country. All non-Empire imports are subject to a 10 per cent duty, in addition to being directly restricted. An import embargo placed on a long list of American products last December, is expected to save Canada about $70,000,000 per year in foreign exchange.

The products embargoed were mostly non-essential or luxury articles. In order to prevent the diversion of the Canadian plant capacity into the production of these goods to satisfy local demand, and to further concentrate on war essentials, many of them, such as automobiles, radios and other consumer durable goods, are now subjected to heavy excise tax.

Ordinarily the measures calculated to reduce personal consumption are characteristic of a still more advanced stage of war economy that was reached in the Axis Power countries some time ago and into which Great Britain is now gradually passing. In Canada, these measures have been enacted chiefly because of the foreign exchange difficulties. Whether they will have to be extended to more goods and whether it will ultimately be necessary to lower the standard of living by rationing and further taxation is still being debated among the Canadians themselves. In view of great surplus production of foodstuffs and such consumption goods as textiles, this does not seem to be necessary for the time being.

Foreign Investments in Canada in 1937

(In Millions of Canadian Dollars)

	United States Investments	British Investments	Other Countries	Total Investments
Government securities	1,181	514	3	1,698
Railways	539	1,066	29	1,634
Other public utilities	553	176	9	738
Manufacturing	965	370	16	1,351
Mining	257	90	10	357
Merchandising	145	73	4	222
Insurance and financial	208	235	47	490
All other	85	160	30	275
Grand Total	3,933	2,684	148	6,765

Canadian Investments Abroad in 1937

	United States	United Kingdom	Other Countries	Total
Merchandising	2	1	5	8
Manufacturing	88	7	26	121
Mining	26	.....	99	125
Utilities and others	212	5	39	256
Total direct investments	328	13	169	510
Foreign securities held by insurance companies	161	10	29	199
Net assets of Canadian banks	102	10	8	120
Government credits	.....	.....	31	31
Miscellaneous investments	507	8	382	897
	1,098	41	619	1,757

Wide World Photos

Some of last month's maritime recruits go down the ways. At top—The Navy's newest aircraft carrier. Center—S.S. Robin Doncaster. Bottom—The Rio Parana.

Looking Ahead

As far back as the middle of the eighteenth century, American genius contrived to build ships that were the essence of nautical beauty and at the same time possessed a speed that made them the envy of other maritime nations. At first this design for speed permitted American vessels to outrun dangers from foreign warcraft and thus permitted American merchants to engage in much blockade running to almost constantly warring European countries and later, when the necessity to dodge warships had passed, permitted fast passages with perishable cargoes that carried the highest freight rates extant. By the middle of the nineteenth century, American ships were admittedly the "queens of the sea" and were preferred by most shippers, to the profit and satisfaction of American owners.

The American war between the States marked the end of the ascendancy of American ships on the seven seas. But it was not the war that sent American shipping into a decline from which it has never completely recovered its dominant position. The greater opportunities offered for enterprise in the expansion of our country west of the Mississippi was the greatest factor for it absorbed the interests of American capitalists and left the shipping business in the hands of a reactionary group who were loath to adopt such new fangled notions as steam while the old sailing vessels, which had once been so profitable to operate, continued to exist. Speed had brought American shippers to the peak and the lack of competitive speed reversed the process.

The last world war gave American shipping another jolt which started it on its way to the heights but the end of the conflict, the bankruptcy of Europe and the high cost of operating American ships in competition with those of foreign registry all combined again to throw the industry into a state of apathy from which it is once more emerging. That during the periods of recurring inactivity in American shipping, shipbuilding should decline and shipyards rust is no cause for wonder. That there are still sufficient skilled workers available to build ships is, however, something for which America—and Great Britain—can well be thankful.

Up until the German submarine campaign again demonstrated its efficiency as a destroyer of shipping we had plenty of ships and not a few to spare. True, the great majority of them were over-age—about 85 per cent being more than 15 years old on October 1, 1940—but

With the Shipbuilding Industry

Long Cycle of Record Volume Indicated

BY STANLEY DEVLIN

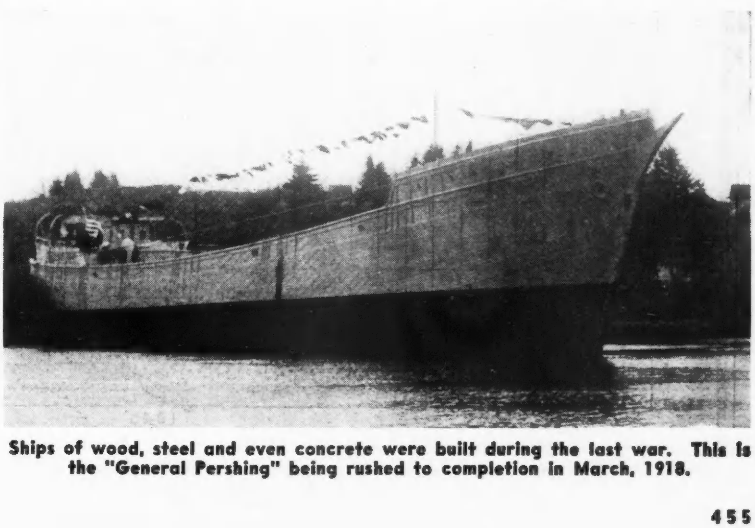
they were mostly all workable and as such, have become salable to Great Britain. Britain has not purchased all of these over-age ships, some 1,100 in number, but they will probably all soon be sold and at prices that will make possible a substantial down-payment on a brand new American fleet of considerable size.

American shipyards received awards for merchant shipping amounting to approximately 836,440 gross tons, involving some 95 steel commercial sea-going vessels, in 1940. The largest number of ships range in size from 6,200 tons to 11,600 tons each and include freight, tankers and combined passenger and freight vessels. These figures do not include a host of small craft such as tugs, ferries and other working boats nor do they include a considerable amount of Great Lakes tonnage which is holding operations in inland shipyards at practically 100 per cent of capacity.

During 1940, 68 commercial sea-going vessels of 1,000 tons or more, and having an aggregate tonnage of nearly 550,000, were launched and 51 similar vessels—launched both in 1939 and 1940—were delivered to their owners. Of the ships delivered, 28 were high speed cargo ships, 17 were tankers, 5 were combination passenger-freight boats and 1 was a passenger boat. The 95 new ships ordered in 1940 would seem to indicate that the shipbuilders were adequately supplied with work for the next two years; and so they are. But the two-year period is only the beginning for orders will expand as time goes on.

The President has recently announced the plan to supply Great Britain with 200 ships yearly at a cost which is to range between $300 million and $350 million. The ships are to be built by "fabrication" methods which were installed and proven successful toward the close of the last war. Obviously, with ship-ways crowded for 2 years ahead with American business some expansion of facilities is necessary. The President has solved the initial steps in this problem by allocating $36 million for the purpose of building new, or expanding old, shipyards. Fortunately, ship-ways are relatively inexpensive to build and equipment for fabricating ships is small in comparison to custom made requirements. The plan is feasible from the standpoint of construction although labor and materials offer a larger and more difficult problem. The ships themselves will be slow and ungainly looking although they will be able to supply the necessary cargo space for Great Britain and will be moderate in cost per unit.

Even if the commercial business was all that was available, the shipyards would have little cause to worry about business for the next several years at least. But the volume of commercial orders pales into relative insignificance alongside of the vast amount of naval orders in hand and to come. Private shipbuilders started 1940 with a backlog of 241,725 displacement tons of naval construction and during the year received orders for 1,454,375 displacement tons more. The early figure called for 36 vessels of which 18 were delivered during the year. The latter figure was for some 284 ships which means that the industry has more than 300 naval vessels still to deliver. While the output of the yards will be stepped up considerably above the 18 for 1940, there is still a tremendous amount of work ahead on current orders, not to mention orders that are even now in the offing. What is more remarkable is that these orders do not include the many kinds of small auxiliaries which are being built by other yards and which in themselves constitute business of large size. While of no importance to the private shipbuilders, the fact that the Navy's eight yards, which are capable of constructing larger naval vessels, are operating at full capacity is of the



Ships of wood, steel and even concrete were built during the last war. This is the "General Pershing" being rushed to completion in March, 1918.

greatest importance to the steel industry as well as the electrical equipment and many other manufacturers whose business has been stimulated by the renaissance of shipbuilding.

The number of companies possessing the capacity to build large ships is small. At the close of 1937 there were but 6 engaged in producing sea-going merchant ships but by resurrecting a number that had fallen into disuse the total of those operating on all of our coasts has now been increased to 16. More are planned to be built with part of the $36 million appropriation spoken of earlier and these will probably be located mostly on the Gulf or its near vicinity both as a measure of protection and convenience. Peculiarly enough, some of the largest of the shipbuilders are engaged in the business only as a supplement to their regular activities. This is particularly true of Bethlehem Steel and Sun Oil Co., who between them have the largest backlog of unfilled merchant orders.

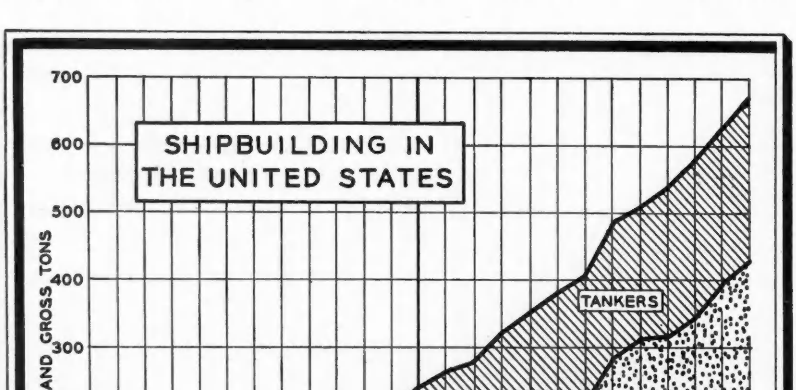
Bethlehem Steel on December 1 had orders for 47 ships with a gross tonnage of 379,600. In addition to the merchant work, Bethlehem Steel is understood to have on hand naval orders amounting to well over $400 million. The merchant vessels include many types ranging from passenger-cargo ships to tankers although the latter are the more numerous. In addition to the actual shipbuilding done by the company plants, Bethlehem Steel has orders for considerable steel and kindred materials to be used in the construction of ships—both naval and private—at other yards.

Sun Oil Company's shipbuilding subsidiary, the Sun Shipbuilding and Dry Dock Co., has a lesser number of merchant ships on order than Bethlehem Steel but the gross tonnage involved is larger. December 1 figures indicated that Sun was working on 43 cargo vessels of all types with a gross tonnage of 419,350. Sun Shipbuilding does not report any direct Navy work although one cargo-passenger, one cargo and two large size tankers are being built for the Maritime Commission and as such may be considered to be naval auxiliary vessels. Since Sun Shipbuilding is noted for its tankers, it is not surprising that the bulk of its orders on hand are for this type of ship.

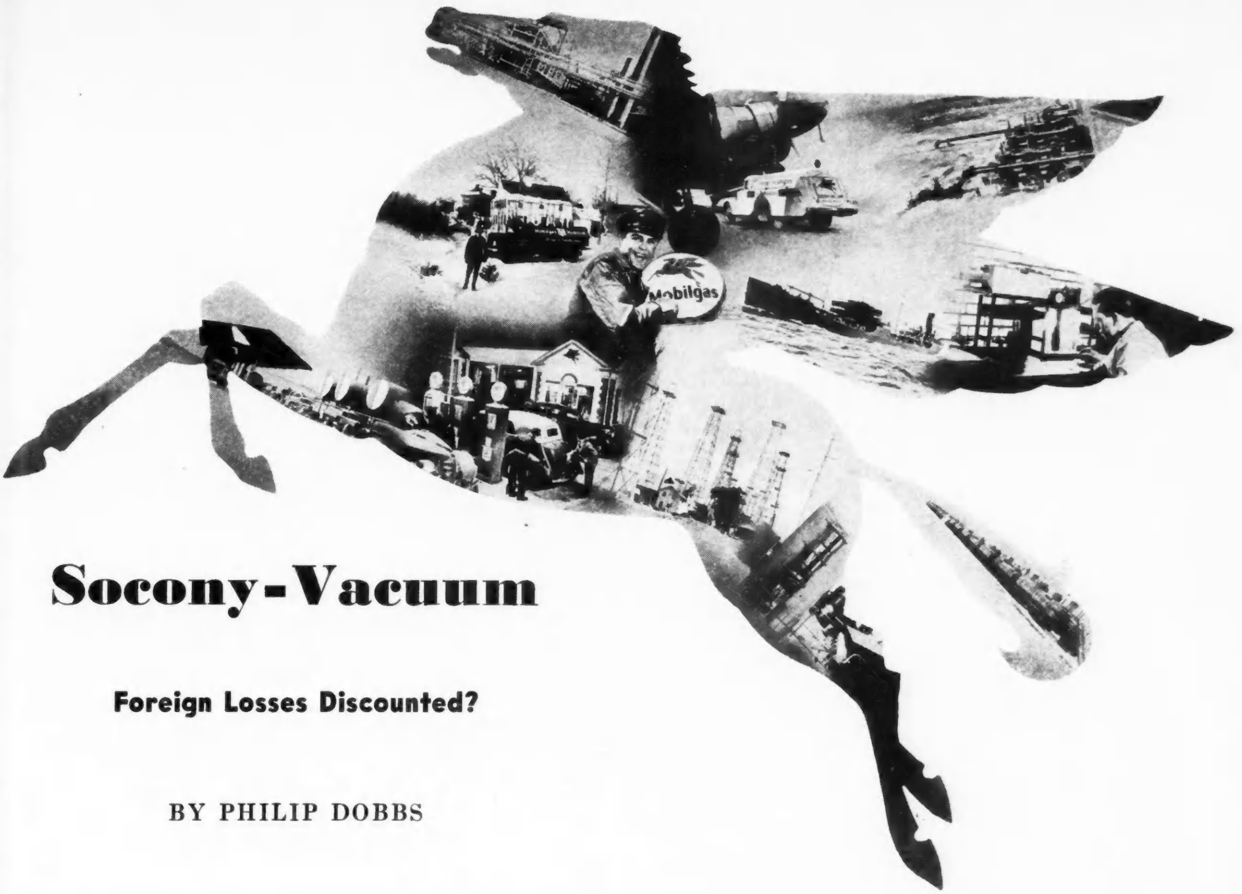
Not to be outdone by Bethlehem Steel, its smaller business rival, **U. S. Steel Corp.** is also engaged in the shipbuilding industry through control of the Federal Shipbuilding yards. These yards are much smaller than those of Bethlehem Steel and accordingly have orders for only 19 ships with a total gross weight of 154,800 tons. Fourteen of the ships are cargo carriers of which 12 are for the Maritime Commission. The remaining 5 are tankers for private owners.

The number of shipbuilders whose shares are available to the public is relatively few. For the past twenty years there has been little public interest in shipbuilding and none at all as far as financing was concerned. Nevertheless, approximately 6 companies have survived the lean years and are now flush with business and potential profits. Of these, not all possess equal abilities or facilities although all of them will probably obtain sufficient orders to hold operations at capacity.

The only sizable "land-locked" shipyards are those of the **American Ship Building Co.,** which operates on the Great Lakes. The yards' location makes the building of larger sea-going craft impractical and has thus prevented the company from obtaining any large naval or Maritime Commission orders. The company has, however, built nearly all of the Government flag fleet operating in the Lakes and in addition has an extensive commercial building and repair business which is booming due to heavy shipments of ores and many similar commodities brought about by defense orders to others. The company is not devoid of all Navy business for it has recently received an order for 12 submarine net tenders to cost $6,500,000 and may be expected to receive numerous additional orders for small auxiliary craft both for fleet and Lake duty. In addition to shipbuilding, the company has used its fabricating facilities to supply others and is developing a mechanical stoker suitable for feeding Scotch boilers of the type to be used for the British cargo boats to be built later.



Bath Iron Works, formerly a "Down East" builder of coast guard tenders and fishing boats, etc., is now one of the leading builders of destroyers. The order backlog for such ships now totals better than $150 million and even if no further orders are received the company will be actively engaged well into 1944. The company does not solicit commercial work, but Maritime Commission orders for 4 freighters having an aggregate gross tonnage of 24,800 are indicated. (*Please turn to page* 491)



Socony-Vacuum

Foreign Losses Discounted?

BY PHILIP DOBBS

While Socony-Vacuum Oil Company's earning power and asset position have undoubtedly been affected by war conditions in Europe and the Far East it is hardly possible that they have been, or will be for that matter, as badly injured as the current market price for the capital shares would seem to indicate.

The company as it stands today represents a merger of two of the larger units of the old Standard Oil group, although its size is now incomparably larger than it would have been at the time of the dissolution of the old parent company. Operations—producing, refining and marketing—were, up to the beginning of the war, of world scope. The war has reduced the sphere of company operations by eliminating European markets and has absorbed much of the company's foreign refining capacity but even today, a large part of the former foreign business volume has been retained while domestic business has increased.

Although the company started in business primarily as a marketing organization, it is now completely integrated and ranks among the largest of the domestic oil companies. At the date of the last annual report, Socony-Vacuum had 8,787 domestic producing oil wells from which it obtained 61,825,000 barrels of crude oil a year. In addition to producing oil wells, the company owned, on the same date, 232 producing gas wells. Total owned or leased oil lands amounted to 6,125,669 acres of which 109,734 acres were proven producers. The company also had an interest on a royalty basis in 66,673 acres of oil land of which 3,373 were in production. The bulk of the company's oil properties are in California and Texas, and some sizable holdings in practically every other oil producing state. Apart from its foreign marketing facilities, Socony-Vacuum has varying interests in foreign oil producing fields of which the Venezuelan and Colombian holdings are the most prolific. It also has an interest in the famous Iraq field through half ownership of the Near East Development Corp. which in turn holds a 23¾ per cent interest in the Iraq Petroleum Co. The latter company has important concessions for exploration as well as present production. The balance of the stock of Iraq Petroleum is owned by Standard Oil of N. J. and a combination of French and British interests. Joint ownership with Texas Corp. of control of Colombian Petroleum Corp. gves the company a 50 per cent interest in the Barco concession of Colombia and production capacity in excess of 18,000 barrels of crude oil daily. Interests in companies with concessions for oil production in Egypt and the Dutch East Indies round out the company's position as a world wide oil producing entity.

While the company is completely integrated, distribution still claims the greater part of its attention. Distribution facilities are owned or controlled on every continent of the world and in every country excepting Russia. It matters little whether or not the countries are fully civilized according to Western standards for Socony-Vacuum has godowns and tank wagons in Africa, interior China, back-country Australia as well as the more con-

ventional urban and rural areas of New York State and New England. Tank ships, railroad cars, tank-trucks and pipe lines penetrate every nook of the company's American sales areas as well as most of the ports of the Seven Seas. Property in Europe has not as yet been confiscated by the conquering Nazis although their value has been written down sharply on the company's books and undoubtedly some of it has been destroyed during the course of the war. The only exception to this statement is in the case of the company's Polish properties which have fallen prey to Russia but the company has said that their value was relatively insignificant.

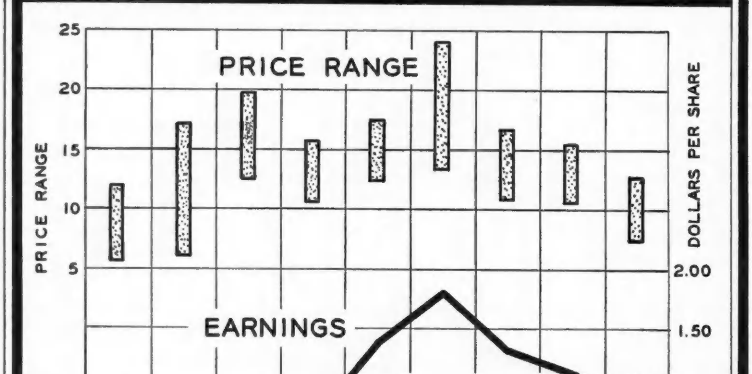
The latest financial statement showed that Socony-Vacuum carried its foreign investments on its books at a net value of $206,000,000 or approximately 28 per cent of the entire net asset value of the company at that date. However, of that amount only about $38,000,000 or slightly more than 5 per cent of the company's total net asset value represented net investments and advances in Europe. About $87,400,000 represented Socony-Vacuum's 50 per cent interest in Standard Vacuum Co. which is jointly owned with Standard Oil of N. J. while the remainder represented mostly South American interests which includes part ownership of the prolific Barco concession of Colombia. Unquestionably, when the actual figures for 1940 become available, it will be found that foreign holdings—especially those in Europe—have been further depreciated but the write-down will certainly not clean the slate of all foreign investments nor will it disclose that all foreign income has ceased. Despite the improbability of such a step, it might be interesting to speculate on what it might mean to the company in terms of assets and earnings per share of stock.

When the last balance sheet was published in 1940, the company had a net asset value of about $708,000,000. In other words this was the book-value of the capital stock after all indebtedness had been allowed for. On that basis, the 31,708,452 shares of capital stock then outstanding had a book-value of about $22.33 a share. As was pointed out before, all foreign assets were carried on the books at a total of $206,000,000, which, if they were written off as a total loss, would still leave net assets of about $502,000,000. On the supposition that there were no longer any foreign assets the capital stock would still retain a book-value of nearly $16 a share or approximately 77 per cent more than the prevailing market price for the shares at this time. For a company that was as yet untried one might expect to purchase the company's shares at a sizable discount from their indicated asset value. But in the case of Socony-Vacuum shares it would seem as if a 44 per cent discount after completely eliminating all even faintly doubtful foreign assets were a bit too strong.

Foreign Contributions to Earnings Heavy

According to the latest earnings statement, Socony-Vacuum had a net income, after all charges and write-downs, which totaled $34,452,710. Of this amount, $13,500,000 or somewhat less than 40 per cent of the whole came from foreign sources but the foreign figure did not include European earnings not received by the company. If the company had received no foreign income at all it would still have had net income of nearly $21,000,000 or the equivalent of $0.66 a share of capital stock. But foreign income has not been completely cut off as might be indicated by estimates of earnings for the first 6 months of 1940.

According to official estimates, Socony-Vacuum earned a net income of approximately $25,000,000. The report was careful to point out that this sum was not actually received in full but represented actual receipts as well as equities in earnings of partly owned companies that had not as yet declared dividends for the full amount. Earnings not actually received from any European sources were not, however, included in the estimate. On a basis of former reports, it is further estimated that this indicated net income was equivalent to approximately $0.79 a share of capital stock. The figure was substantially better than that of the two preceding 6 months' periods of 1939 which showed earnings of $0.55 and $0.54 a share, respectively, for the capital stock.



The situation in the second half of 1940 was not as favorable as that of the first half for in that period the British blockade of Europe was tighter, American gasoline prices were moderately lower and taxes took a substantial jump. Nevertheless, it is very unlikely that the second half efforts resulted in a loss or even in a stand-off. Conservative estimates place results for the second half at approximately half of those for the initial six months' period and as a result, it is probable that the full year's earnings will be nearly equal to those of 1939 if not modestly better. Looking ahead in 1941 it is possible that earnings will continue to be somewhat smaller than those of other years but, on the other hand, it is not likely that the domestic refined oil price structure will get any

weaker and, if the statistical position of the entire industry continues to improve, prices may be considerably better by the time that the Spring season begins. Sharply better public income will result in markedly higher gasoline consumption over the coming months and better domestic business in general promises to compensate in some measure for the loss of a sizable part of the company's export business.

The size of the company's share capitalization and the conservative policy of the management have not made the shares a speculative favorite although the same factors have instilled considerable investor confidence in the past. Conditions are no different today despite the fact that the shares are selling at low levels. Only once in the past 10 years has the company had a net loss after charges but ever since the company has existed in its present combined form it has maintained dividend payments. The current dividend rate of $0.50 a share will probably be continued and, what is of more importance to the investor, will probably be earned. The current dividend return of about 5.5 per cent is not exceptional but must be considered more than generous in view of the position of the company in the industry and the strong protection of assets behind each share of stock. The dividend may be moderately reduced at some future date but there is also the prospect that it may again be increased. What is most important is the fact that neither of the companies which now compose Socony-Vacuum has passed a dividend in more than 25 years and since precedent is strongly regarded by the management, no omission is likely as long as some surplus assets remain.

A Socony-Vacuum service station in South Africa.

The company's financial position has long been regarded as being impregnable. The latest report indicated total current assets of more than $245,000,000 which were about 4.4 times larger than total current liabilities of about $55,900,000. Cash alone was in excess of $40,500,000 or about 1.3 times greater than the total quick debt. Other assets at the time included 502,381 shares of the company's own stock reacquired as a cost of less than the present market value of the shares.

The funded debt consisted of two debenture issues maturing in 1955 and 1964, respectively, and outstanding in the joint amount of $125,000,000. Purchase obligations which matured in more than 12 months represented $1,419,256 as distinct from similar obligations amounting to $485,497 which matured last year. There were no domestic bank loans outstanding but about $19,300,000 was shown as being owed to Standard-Vacuum Oil, Socony-Vacuum's 50 per cent owned subsidiary. Together with the Texas Corp., Socony-Vacuum had a contingent liability in a $15,000,000 note of the Colombian Petroleum Co. which was guaranteed by both companies.

While the company has a substantial interest in foreign investments, its domestic interests are much larger. For instance, while foreign (*Please turn to page* 495)

SOCONY-VACUUM'S FOREIGN SUBSIDIARIES AND THEIR OPERATING AREAS

Company	Countries in which they operate
Latin America	
Vacuum Oil Co. de Mexico, S. A.	Mexico
Compania Socony-Vacuum Oil Co. de Col.	Colombia
Socony-Vacuum Oil Co. C. A.	Venezuela
South American Oil Co. (50%)	Barco, Colombia
Ultramar S. A. Petrolera, Arg.	Argentina
Europe	
Vacuum Oil Ltd.	England
Vacuum Oil Co. S. A. F.	France
Deutsche Vacuum Oel A. G.	Germany
Vacuum Oil Co. S. A. I.	Italy
Vacuum Oil Co. A. S.	Czechoslovakia
Vacuum Oil Co. A. G.	Austria
Vacuum Oil Co. R. T.	Hungary
O/Y Vacuum Oil Co. A/B	Finland

Company	Countries in which they operate
Europe—Cont'd	
"Photogen" Raf. de Petrol S. A.	Roumania
Vacuum Oil Co. Ltd.	Ireland
Standard-Vacuum Oil of Jug.	Jugoslavia
Vacuum Oil Co. A. B.	Sweden
Norsk Vacuum Oil Co. A. S.	Norway
Vacuum Oile Maatschappij N. V.	Holland
Vacuum Oil Co. S A. B.	Belgium
Vacuum Oil Co. S. A. E.	Spain
Vacuum Oil Co. C. I. S. A. E.	Canary Islands
Vacuum Oil Co. A. S.	Denmark
Gibraltar Vacuum Oil Co.	Gibraltar
Compagnie Ind. des Petroles	France

Company	Countries in which they operate
Far East	
Standard Vacuum Oil Co.	Japan
	North and South China
	Straits Settlement
	India
	Australasia
	South and East Africa
	Sumatra
East	
Socony-Vacuum Oil Co. Levant Div.	Istanbul, Turkey
Socony-Vacuum Oil Co. Near East Div.	Cairo, Egypt
Near East Development Co. 23¾ per cent. owned.	Iraq
Vacuum Oil Co. (Del.)	Portugal
	West Africa

1941 Security Appraisal and Dividend Forecast

Part 1—Foods, Sugar, Tobacco, Rails, Utilities, Miscellaneous Issues

The letters A, B, C, D, E, indicate our judgment of the basic investment quality of each security, based on earnings and dividend record, financial strength, management, trade position, growth prospect, operating flexibility, etc. The numerals 1, 2, 3 indicate current earnings trend.

BASIC INVESTMENT QUALITY	CURRENT EARNINGS TREND
A—High Grade	1—Upward
B—Good	
C—Medium Grade	2—Steady
D—Marginal	
E—Low Grade	3—Downward

THE investment outlook for 1941 is highly unusual in that a record-breaking volume of business activity is assured—but with the prospect for earnings and dividends by no means proportionately assured. An armament-war-orders boom is an economic abnormality. The benefits in terms of increased volume are unequally distributed among the industries. The present and potential costs and mal-adjustments—such as higher operating expenses, raised taxes, priorities, etc.—are also very uneven in their impact on net earnings available for shareholders.

The tax bill which is expected to be formulated by late Spring is the greatest single uncertainty in this year's earnings outlook; and earning power, of course, is the controlling factor behind dividends. It is not known whether the normal corporate tax will be further raised or whether the major change will be in the severity of the excess profits tax rates.

We reason that the important thing for investors is not the total amount of taxes that a company may pay, but net earnings *after taxes.* One company, for example, may be liable to heavy excess profits taxes and still have net earnings substantially larger than its past average. Another may pay no excess profits tax and yet have earnings under past average. On this reasoning, the tabulations on following pages include a "Tax Rating" based on our judgment of each company's general earnings potentiality in relation to higher taxes. The chief considerations are volume outlook and operating flexibility or inflexibility. The numeral I is the most favorable rating, II a fair or medium rating, III the least favorable rating.

The tables are also accompanied by our investment ratings, explained in the adjoining box on this page. Issues favored as mediums for safe income are denoted by a star. Issues recommended for cyclical appreciation are marked with an asterisk. Issues favored for both income and appreciation are marked with a dagger. Timing of any purchases, however, should accord with general advice given in our market article in the forepart of each issue.

Part II of this feature in February 8 issue will cover Steels, Metals, Building, Liquors, Machinery and Equipments. Part III in issue of February 22 will cover Aviation, Chemicals, Motors and Accessories, Oils, Movies and Merchandising.

Rising Costs Hit Food Companies

Taxes a Major Threat

THE various divisions of the food industry are not, on the whole, direct beneficiaries of the armament program, but they stand to experience a good deal of stimulation through the growth in national income resulting from our armament. The 1940 national income is estimated to have reached about $75,000,000,000, but this year's income is expected to run between $81,000,000,000 and $83,000,000,000 and employment is expected to gain in 1941 to the extent of 1,500,000 to 2,000,000 persons.

It is apparent, accordingly, that the current year's volume in the food business is likely to top that of 1940 by a substantial margin. Nevertheless, it is unlikely that the greater volume over 1940 and possibly higher prices which may be instituted this year in some sections will be sufficient to offset increased taxes, as well as higher material, labor and operating costs. The food industry's disadvantage in the current defense economy comes from its necessitous

character, which gives it stability of a type that permits little flexibility.

On the vital matter of price, for example, the food industry is well aware of the regulations of World War days. Danger exists that individual processors and retailers may advance prices to an undue extent, with the thought that the current economy is such as to absorb with no great difficulty a series of price advances. On the other side of the picture is the consideration that price competition, both among food manufacturers and distributors seems to be on the rise, as resort is made to the "out" of larger volume to cushion higher costs. It is possible that this trend may develop further in 1941 and that it may become strong enough to weaken substantially the various fair trade laws and other legislation aimed at price fixing.

In any event, the food producer often is constrained to adjust his product to the price level dictated by the consumer and in the interim frequently is forced to accept sizable losses. It is to a considerable extent this consideration (without thought to Government watchfulness over the situation) which leads to the belief that the producer may not be able to pass immediately to the consumer the higher taxes which will be imposed this year. Inference is not that selling prices are entirely inflexible, but that there always is a lag between the public's acceptance of higher prices and the time when the factors which make higher prices necessary come into play against the processor and seller.

Should taxes be left out of consideration, it would be found that food manufacturers' costs have not risen unreasonably, and if these various costs were the only increase necessary to pass on to the public, manufacturers' profit margins would be well maintained. In fact, fruits, vegetables, cereals, fish, meats and the numerous commodities which find their way to the public's table have not risen sharply, while many staple foodstuffs still are selling below their level of a year or so ago. Prices for wrappers and cartons are higher in some cases, but by and large the aggregate rise in these costs is by no means great enough to make current selling prices for the

finished products unprofitable to the processors and the merchandisers.

With regard to the beneficial effect of military demand on the food industry, it is a fact that individuals consume much more food in military service than in civilian life, reflecting appetite stimulation from the vigorous activity. Actual dollar sales may not reflect so fully the buying by the armed services, since Government purchases command somewhat lower prices than private buying, with the consequence of raising volume of sales, but not dollar receipts. And, then, of course, it is to be borne in mind that for every soldier fed by the Government, there will be one less private individual who must buy food.

Naturally, buying for military purposes will be particularly good in certain lines. For example, canned milk, vegetables and salmon have been popular lines for export to England, and are likely to be in good demand here—during army maneuvers in particular. Aside from these lines, most foods are being exported in comparatively low quantity. It is expected, however, that any surplus occasioned by the falling off in exports will be absorbed by normal increases in domestic consumption and the accumulation of reserves for war purposes in the United States.

With regard to the more specific divisions of the huge, basic food industry, the baking division, to use one example, has been affected by various of the preceding factors. Last year the price of bread was advanced by the large bakers in an effort to pass on to the consumer the higher costs of flour and shortenings. This move was only partly successful, since it met with competition from large chain stores that sell their own product to their customers in competition with the nationally known brands. Result was that the large bakers lost a considerable part of their volume, although the total consumption of bread remained about unchanged. Since then, breads have gone back in price to approximately an equal basis, and nothing more than stability is to be anticipated. The outlook for sales of fancy baked goods, however, is promising, since sharply advanced national income should increase demand for these large-profit lines. Much or all of the gains likely there, however, will be absorbed by increased taxes this year.

The dairy products companies, too, will find the tax yoke heavy. They are usually able to pass on to the consumer increases in raw milk

Position of Leading Food Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Armour (Ill.).......	d$0.04O	A$0.28O	....	II	D-1	May pay something against preferred arrears this year.
Beatrice Creamery...	3.90F	3.00E	$2.00	II	C-3	Present $2 dividend appears reasonably secure.
★Beech Nut Packing	5.65	6.50	6.25	II	B-2	Will probably pay at least $5 this year.
Borden............	1.81	1.70	1.40	III	C-3	Higher costs cut earnings margin for dividends.
California Packing...	3.26F	3.00F	0.75	II	C-2	Higher prices will aid current net. Debt reduction may limit dividends.
Cont'l Baking "A".	3.32	0.40	....	III	C-3	Preferred arrearages preclude near term dividends on A stock.
Corn Prods. Refg...	3.32	3.00	3.00	III	B-3	Narrow margin of safety places dividend on uncertain basis.
Cream of Wheat....	1.80	1.65	1.90	III	B-3	Reduced dividend may be secure for 1941.
Cudahy Packing....	0.60O	A3.29	....	II	B-1	Preferred arrearages eliminate possibility of common dividends.
General Baking.....	0.50	1.00	0.60	II	B-2	May pay moderately higher dividend this year.
★General Foods....	2.75	2.75	2.00	II	B-2	Earnings should gain moderately. Higher dividends unlikely.
General Mills......	7.69My	A6.64My	4.25	II	B-3	Profits will reflect increased taxes. Present dividend safe.
Hecker Products....	1.21Je	A0.52Je	0.60	III	D-3	Persistent drop in earnings jeopardizes dividends.
★Hershey Chocolate	7.24	6.00	3.00	III	B-3	Earnings show some decline but dividends appear safe.
★International Salt...	1.93	2.75	2.50	II	B-1	Further moderate earnings gain forecast. Liberal dividends likely.
Libby, McNeill & Libby......	1.04F	1.50	0.50	II	D-1	Better price structure may permit additional dividends.
Loose Wiles.......	1.69	1.70	1.00	II	C-2	Competitive conditions restrict earnings. Dividends reasonably secure.
★Mead Johnson....	10.27	10.00	4.50	II	B-2	Earnings should permit maintenance of liberal dividend policy.
Morrell, John & Co.	5.45O	A5.12O	2.75	II	B-1	Earnings prospect favors dividends at least equal to 1940.
National Biscuit Co..	1.68	1.40	1.60	III	C-3	Decline in earnings may necessitate lower dividend.
★Nat'l Dairy Prods..	1.97	1.65	0.80	II	C-3	Earnings prospect doubtful but dividends probably secure.
Penick & Ford......	3.95	3.00	3.00	III	B-3	Higher costs and taxes cut net. Dividends speculative.
Pet Milk..........	2.56	2.60	1.00	II	C-2	Earnings will probably support present dividend.
Pillsbury Flour......	3.08My	A1.64My	1.60	III	C-3	Dividends in doubt pending evidence of improved earnings.
Purity Bakeries......	2.14	1.50	1.10	III	C-3	Earnings improvement needed to assure dividends.
Quaker Oats.......	5.82	5.75	5.00	III	B-2	Heavier taxes may cut earnings-dividend margin.
Snider Packing.....	2.37M	2.50	0.25	II	C-2	May pay extra before fiscal year closes.
Standard Brands.....	0.51	0.60	0.40	III	C-1	Taxes may restrict earnings gains. Dividends speculative.
Stokely Bros.......	d1.74My	A0.15My	....	III	D-2	Earnings should be better but dividends may be deferred.
★Swift & Co.......	1.74O	1.89	1.20	III	B-2	Dividends probably secure but taxes will restrict net.
United Biscuit......	2.22	1.80	1.00	III	B-3	Dividends have fair safety margin. Earnings prospects flat.
Ward Baking "A"..	d19.12	d	....	III	D-3	Dividend prospects drab.
Wilson & Co.......	0.64O	A0.84O	....	II	C-1	Preferred arrears will probably be eliminated this year.

F—Fiscal year ends following February. M—Year ends following March. My—Year ends May. Je—Year ends June. E—Estimated. d—Deficit. O—Year ends October. A—Actual earnings. ★—Recommended for income.

costs, but with competition heavy in the fluid milk business, profit margins are slim at best. In any event, this end of the business rarely contributes materially to net income. Rather, the mainstays, at least as far as profits are concerned, are the ice cream, butter, cheese, egg and related divisions. Consumer resistance to price increases in these semi-luxury products, however, is great—with many substitutes already standardized and likely to prove quick replacements in the event of undue price rises. Thus, the story here is somewhat the same as in the case of the baking companies: volume increase definitely in sight, but large cost and taxes likely to take as much or more than the entire addition to sales.

Greater breadth of products and operations of the food packing companies at least make for less restriction than in many other divisions of the food industry, but here, too, a certain amount of inflexibility exists in prices, with the various companies unlikely to be able to pass along to the consumer the full amounts of increased costs of doing business and larger taxes. Continued stimulation will accrue from the frosted foods industry, which is constantly expanding (General Foods, for example, now is processing 400,000 oysters daily, using modern excavating, conveying and treating machinery), and likely to be used extensively in supplying Army training camps.

Companies which derive most of their products from corn are not much better situated than the flour millers from the profits standpoint. Corn, moreover, has been at relatively high prices, despite heavy crops and large carry-overs; a fairly large export demand and the operation of Government crop loans have been largely responsible. Corn millers on the whole have tried to make the sales of their products more elastic through courting wholesale outlets, but they still must depend in great measure on the packaged goods which go to the consumer directly and are thus subject to firm public resistance. Since competition is invariably heavy and profit margins small, the outlook for the current year of likely heavy taxation is hardly bright.

Meat packers have been making the best showing of any of the food producers, partly because of their fiscal year basis of reporting, wherein there is no application of the excess profits tax until the fiscal year ending in 1941. The majority of companies in the industry, however, is exempt from the excess profits tax (as now constituted) on the basis of large invested capital. Although exports have been, and still are, disappointing, meat packers are off to a good start for the 1940-41 fiscal year. The price trend has been gradually upward, and livestock receipts large.

That demand is strong is reflected in the fact that storage holdings of meat now are only about 15% higher than a year ago, compared to levels in 1940 of about 20% over those of a year preceding. Supplies thus may be regarded as being at fairly reasonable levels, demand considered, and with smaller indicated aggregate livestock marketings in sight, meat prices are likely to rise even against the influence of consumer resistance this year. With purchasing power rising and margin increasing for semi-luxury purchases (particularly among the normally low-income classes), however, resistance may not be particularly great, and the comparatively large stocks of packers should be moved along at a fair profit.

Sugar

This year's marketing quota for the sugar industry has been set at 6,616,817 short tons, which compares with an initial 1940 quota of 6,725,100 tons and a later 1940 quota of 6,471,362 tons. Although the quota for this year is higher than that allotted later in 1940, the situation relatively is favorable, since carryover stocks were smaller than a year ago and demand is running higher. It is significant, moreover, that this year's starting allotment is the smallest initial marketing quota in the last four years.

Since sugar prices declined in 1940 to unusually low figures, the basis exists for some rise this year, considering the broadly advanced public purchasing power likely in 1941 and potential buying of sugar for the armed forces. Puerto Rican sugar companies are on the whole better situated than the Cuban producers, because of the large percentage of Cuban production sold in world markets, where the outlook is comparatively unfavorable, while the domestic producers likewise enter the year in somewhat better position. Domestic cane sugar refining companies may obtain a slightly larger share of the total business this year than in 1940.

Position of Leading Sugar Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Amer. Crystal Sugar.	$1.85M	$1.00	$0.50	III	D-3	Earnings and dividend prospects will depend on higher sugar prices.
Amer. Sugar Refg...	d0.84	0.20	....	III	C-1	Moderate improvement may be extended. No nearby common dividends.
Cent. Aguirre Asso.	1.51Jy	A1.62Jy	1.50	II	C-2	Earnings prospects appear fair. No change in dividends.
Cuban Amer. Sugar.	0.21S	Ad0.07	....	III	D-3	Earnings outlook unimpressive.
Fajardo Sugar.......	2.40Jy	A2.19Jy	2.00	II	B-2	Government payments will probably aid in supporting dividends.
Francisco Sugar.....	0.15J	Ad0.70J	....	III	D-3	Uncertain factors in Cuban sugar prospects.
Gt. Western Sugar...	1.67F	1.75	2.00	III	C-2	Earnings may show moderate gain. Dividends speculative.
Guantanamo Sugar..	0.01S	Ad0.094	....	III	D-3	Large preferred accumulations preclude common dividends.
Holly Sugar........	2.50M	2.00M	....	III	C-2	May show moderate earnings gains. Dividend resumption possible.
Nat'l Sugar Refg....	d0.76	0.75	....	III	C-1	Higher prices, if sustained, would permit resumption of dividends.
So. Porto Rico Sugar	2.11S	A2.16S	2.30	II	B-2	Earnings prospect fair. Dividends speculative.

d—Deficit. E—Estimate. M—Year ends following March. F—Year ends following February. J—Year ends June. Jy—Year ends July. S—Year ends September. A—Actual earnings.

Position of Leading Tobaccos

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Amer. Snuff.......	$3.03	$3.00	$3.25	III	B-2	Finances support liberal dividend, but net will reflect increased taxes.
Amer. Tob. "B"....	5.12	5.50	5.00	III	B-2	Dividends of at least $4 assured but prospects are static.
Bayuk Cigar........	4.33	4.50	1.00	II	B-2	Taxes will be heavy but earnings would support larger dividend.
Consolidated Cigar..	0.88	1.10	1.75	II	C-1	Further dividends probable with upward trend in profits.
General Cigar......	1.12	2.30	2.00	II	C-2	Success of low price cigars may extend earnings gains and justify further dividends.
Helme, G. W......	5.96	6.20	7.00	III	B-2	Taxes and higher costs may necessitate smaller extras in 1941.
Liggett & Myers "B"	6.13	5.75	5.00	III	B-2	Prospects do not favor material earnings gains. Regular $4 dividend secure.
Lorillard, P........	1.69	1.60	1.20	III	B-2	Earnings should continue sufficient to meet present dividend rate.
*Phillip Morris.....	8.38M	8.50	5.00	II	B-2	Taxes will arrest gains but net should provide good dividend margin.
Reynolds Tob. "B"..	2.56	A2.55	2.25	III	B-2	Earnings outlook unimpressive, but will probably pay $2 this year.
U. S. Tobacco......	1.77	2.00	1.96	III	B-2	Taxes may necessitate lower dividends this year
Universal Leaf......	8.57J	A7.10J	5.00	III	B-2	Earnings may experience further decline but liberal dividends likely.

M—Year ends following March. J—Year ends June. E—Estimated. *—Recommended for income. A—Actual earnings.

Tobacco

With cigarette production in the first eleven months of 1940 totaling 166,848,184,886 (an increase of 4.5% over production for the first eleven months of 1939), indications are that the past year experienced new record output of over 180,000,000,000 cigarettes. Practically depression-proof, the industry also is benefitted by periods of improved national income. In fact, from the standpoint of potential volume output for 1941, there appears to be clear sailing for establishment of another peak mark. Noteworthy, too, in this regard is the fact that wars have always stimulated the use of tobacco in some form; the European war and our armament activity is likely to continue to bring an extraordinary amount of per-capita smoking in many instances as a nervous escape mechanism.

This year the industry is situated somewhat better than usual in regard to inventories, since cigarette manufacturers have worked off most of their high cost tobacco acquired in 1937 and are now using lower cost materials. Through their well-known method of averaging tobacco costs over a three-year period, the companies try to minimize price swings.

Profit margins, however, will be adversely affected in a number of other ways. The industry for years has been known as one of the Bureau of Internal Revenue's biggest income producers (exceeded now only by the liquor industry), and within the last decade a rising number of states have turned to cigarette taxation as a sure revenue producer. Not only are the pressing needs of the current day likely to bring higher taxes on the finished retail product, which would tend to retard consumption, unless the tax is absorbed by the companies themselves, but the industry also will be hit from possibly larger corporate income taxes and excess profits taxes. The leading large cigarette companies have had the benefit of the average earnings option in computing excess profits taxes; should such taxes be confined to the invested capital base the effect would be distinctly disadvantageous. In this respect, the cigar companies are somewhat better situated, though taxes in their case, too, make smaller profit margins a virtual certainty for 1941.

Outlook for Railroad Revenues and Earnings Much Improved

The defense-spurred traffic movement of last year brought estimated gross revenues of 1940 to the highest level since 1930; gross revenues last year are believed to have risen to about $4,250,000,000, as against $3,995,004,251 in 1939 and $4,166,068,602 in 1937. Large expenses, particularly in the equipment division, restrained net income from being the highest since 1930, though the $140,000,000 estimated net for 1940 would thus qualify except for the year 1936, in which net totaled $164,630,041. In 1939 net income equalled $93,181,534.

Because of last year's expenditures, however, plants now are much better equipped to handle the rising traffic volume efficiently. Since loadings are by no means fully reflecting defense production, a continued uptrend appears in prospect for this year. As a matter of fact, the national defense program is expected to effect an increase of perhaps 15% in loadings this year; by the same token, troop movements should soon add substantially to passenger traffic. An interesting consideration in regard to defense-program stimulation, too, is the fact that the defense industries still are rather loosely organized, with the consequence that the various stages leading to the finished product often involve long shipments.

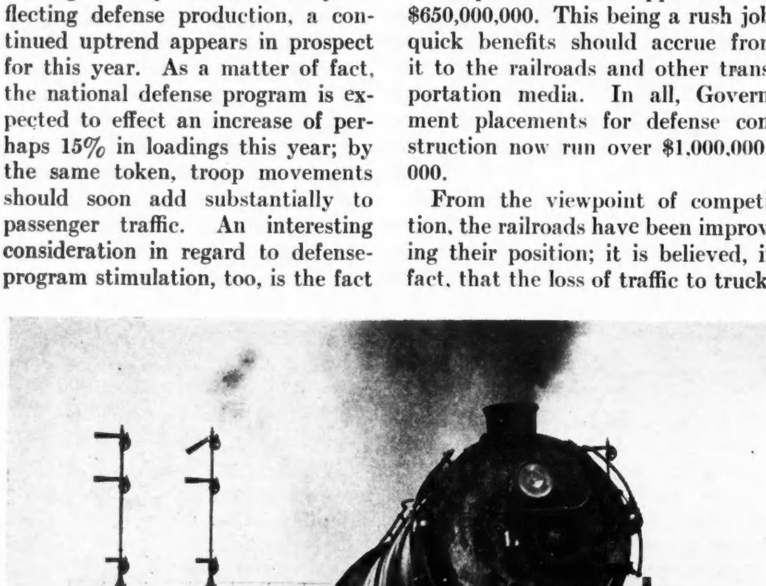
Expansion of cantonments, enlargement of forts, airfields and naval bases, as well as the growth of the armed forces have resulted in shipments of a broad variety of commodities to various parts of the country. Building materials, clothing, food, munitions and similar items are being distributed to a number of budding military centers. Significant, too, is defense plant building, which is just barely getting under way. One big item important to the railroads currently is shelters for trainees, which involves an expenditure of approximately $650,000,000. This being a rush job, quick benefits should accrue from it to the railroads and other transportation media. In all, Government placements for defense construction now run over $1,000,000,000.

From the viewpoint of competition, the railroads have been improving their position; it is believed, in fact, that the loss of traffic to trucks may have reached its maximum. This does not apply to passenger business, however, since Pullman travel has been declining rather steadily. In an effort to capture traffic lost to buses and other media, railroads have modernized coaches, speeded their traveling time and reduced coach fare travel. The result as a substantial gain in coach travel last year, but to a great extent at the expense of Pullman travel. Since the return on operating the trains declined, with labor costs fixed and fares low, the net effect was disappointing. The present year is sure to witness attempts to revise passenger fares, particularly in view of the high cost of modern, streamlined equipment.

In the aggregate, large advances in freight traffic are in sight for the railroads in 1941, and it is likely that there will be a sum total increase, too, in passenger traffic. Profit prospects, relatively, are much less favorable. Maintenance expenditures in the final quarter of 1940 were so much heavier than in the corresponding period of 1939 that net income during the period is believed to have been much smaller.

Similarly, this year, to prepare the physical properties for the estimated advance in traffic, equipment budgets are unusually large. With assurance of major traffic volume over the intermediate term, at least, the railroads are expected to begin heavy maintenance work as soon as weather conditions permit. Schedules are pointed toward winding up all maintenance of way work as quickly as possible, so that rail laying and related activity can be completed before the seasonally heavy traffic season gets under way in the late Spring when Winter grain shipments start moving. This year the seasonal movement will be augmented by the effect of the snowballing armament program, making doubly necessary the quick preparation of adequate equipment.

Another contributor to higher expenses this year is likely to be labor



Courtesy Pennsylvania R.R.

costs. The past year witnessed the highest per-hour wage rate in the long history of the railroads. Preliminary negotiations got under way in 1940 by labor for vacations with pay, and it is possible that these may be carried through to their objective this year. Should vacations with pay be granted, the addition to the railroads' wage bill would approximate about 10%. Train length likewise is a live subject in railroad circles; success of labor's aims to limit train length to 70 cars would jump costs, as may be gleaned from the fact that the locomotives developed in recent years have been constructed for speedily hauling trains of over 100 cars.

Though there will thus be strong checks to expanding profit margins in 1941, it is nevertheless likely that net income may be relatively high in any event, reflecting the benefits of heavy and complete utilization (for the first time in many years) of the railroads' entire plant and property and the strong situation of the railroads generally from the standpoint of invulnerability to excess profits taxes as currently constituted. As a matter of fact, among the various groups of securities, railroads are on the whole in the best vantage position as to excess profits taxes. In the event, too, that excess profits taxation should be confined to the invested capital base (as some Government authorities would like to see it), railroads would as a general run still be favored, since it is in the invested capital base that the immunity to excess profits taxes is great.

Of course, the entire question of taxes is in a state of flux and indecision at the present time. If it be assumed that the invested capital base be adhered to in future excess profits taxation, the railroads are well situated. However, the possibilities now are running even to the procedure of taking perhaps the average earnings basis for figuring exemptions instead of the invested capital basis. This sentiment has been aroused by the fact that many companies which receive only secondary benefits from the defense program are among those most heavily taxed. Having no offset to the greater taxes, because of their typical stability of enterprise and relative inflexibility of price for selling products, these companies have been unduly hit.

Should an attempt be made to help this type of company, the direct armament beneficiaries and many heavy industry lines, including the railroads, may be considerably more affected than they were in 1940. There is, in fact, a possibility that taxes may be so severe as to take pretty much all of the extra profits which might be made from armament work. However, despite inescapable conjecture, it is our belief that railroads will continue to be among those issues in a favored position as to tax vulnerability.

Position of Leading Railroads

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
*Atchison	$0.95	$2.10	$1.00	II	C-1	Some further improvement in earnings likely. Dividends speculative.
Atlantic Coast Lines	0.96	1.80	....	II	C-1	Further gains foreshadowed this year. May resume dividends.
Baltimore & Ohio	d1.55	Nil	....	X	D-1	Gross last year estimated at higher levels since 1930.
Bangor & Aroostook	0.17	0.75a	....	III	D-3	Outlook highly uncertain and early dividend resumption doubtful.
Canadian Pacific	0.32	1.00	....	II	C-1	Traffic tonnage reflects Canadian war effort. Dividends unlikely.
Central R.R. of N. J.	d9.39	Nil	....	X	E-3	Gross up but maintenance outlays cut net. No reorganization plans.
★Chesapeake & O	3.49	4.00	3.25	II	B-1	Further gains may be absorbed by taxes but continued liberal dividends likely.
Colo. & Southern	d5.03	Nil	....	X	E-3	Recapitalization reported to be under consideration.
Del. & Hudson Co	d4.61	1.00	....	III	D-1	Operating property unlikely to pay dividends pending arrangement for large 1943 maturity.
Del., Lack. & West	d0.30	Nil	....	X	E-1	Heavy and largely permanent traffic losses cloud outlook.
Erie R. R	d2.65	Nil	....	X	E-1	May emerge from receivership this year.
*Gt. Northern Pfd	3.48	5.00	0.50	II	C-1	Outlook good. May establish regular dividends this year.
Illinois Central	0.90	Nil	....	X	D-3	Probably earned fixed charges in 1940. Maintenance outlays heavy.
Kansas City South	d0.15	0.50	....	III	D-1	Heavy coal movement aids gross and net. Dividends not likely.
Lehigh Valley	d0.05	Nil	....	X	E-3	Some improvement in traffic volume indicated, but longer prospects dubious.
Louisville & Nash	6.32	7.70	6.00	II	B-1	Traffic outlook good; further dividends assured.
Miss., Kans., Tex	d10.10	Nil	....	X	D-3	Outlook contingent on ability to regain lost traffic.
*N. Y. Central	0.70	1.50	....	II	C-1	Leading industrial carrier favored by defense program. No near term dividend action.
N. Y., Chi. & St. L	3.58	1.75	....	II	D-1	Outlook clouded by current refunding problems.
N. Y., Ont. & West	d3.24	Nil	....	X	E-1	Coming months may witness improvement in revenues.
★Norfolk & Western	20.68	22.00	15.00	II	A-1	Persistent excellence of road's record lends investment quality to shares.
Northern Pacific	0.03	0.80	....	II	C-1	Further gains foreshadowed for 1941, but dividends unlikely.
Pennsylvania	2.43	3.00	1.50	II	B-1	Dividends appear assured by probable traffic gains this year.
Pere Marquette	d1.89	Nil	....	II	D-1	Gross last year best since 1930. May resume prior preferred dividends.
Reading	1.37	2.35	1.00	II	C-1	Heavier maintenance may restrict current gains but dividends secure.
Southern Pacific	1.63	2.00	....	II	D-1	Outlook more promising but large bank loans preclude dividends.
*Southern Ry	2.69	3.00	....	II	D-1	No action likely on preferred dividends pending liquidation of loans.
Union Pacific	6.74	6.25	6.00	II	C-1	Large winter wheat crop favors near term earnings. No change in dividends.
Western Maryland	0.14	0.90	....	III	D-1	Large preferred accumulations place common in unpromising position.

d—Deficit. E—Estimated. X—No basis for rating. a—Preferred shares. ★—Recommended for income. *—Recommended for cyclical appreciation.

Position of Utility Stocks

THE comparatively low levels at which utility securities are selling reflect the several current and prospective difficulties faced by this industry. Aside from pressure to compel utilities to provide higher depreciation rates, State regulation of utilities has risen and Federal regulation of the industry's finances has been elaborated during the last several years. In a recent public speech, S E C Commissioner Healy expressed concern over the large amount of refunding by public utilities within recent years and indicated that common stock financing provides a flexible means of financing and in the case of operating companies may in certain instances prove a more satisfactory investment than bonds, in view of the present low yield of debt securities.

Avowed preferences of the S E C for stock issues is likely to meet little response among utility executives so long as equity prices are at their present levels, since the substantial return now considered a regular expectation by investors makes the cost of such stock financing high, while higher stock capitalizations mean greater income tax liability. Nevertheless, in connection with financing if the plentiful idle funds of banks can be tapped without regulatory authorities imposing restrictions on dividends, it is likely that utility executives will try to maintain dividends in many cases. As a matter of fact, some utility securities are attractive (such as those starred in table) on a high income basis, quality considered.

The crux of the utilities' difficulties lies, of course, in the inflexible rate base. Where most industries pressed by advancing costs resort to the simple expedient of raising prices, this recourse is not open to the utilities except after long negotiation. Thus, the definitely higher gross revenues likely this year seem certain to be taken entirely by larger taxes and operating costs. Fortunately, with regard to excess profits taxes, the industry is one of the more favorably situated.

Company	Earned per Share 1939	Earned per Share 1940E	Divs Paid 1940	Tax Rating	Market Rating	COMMENT
Amer. & For. Pwr....	d$8.88	Def.	....	III	E-2	Decline in exchange tends to offset improved subsidiary earnings. Dividends remote.
★Amer. Gas & Elec.	2.50	$2.85	$2.00	II	B-2	Dividend appears secure in spite of likely narrowing of profit margins.
Amer. Lt. & Tract...	1.52	1.70	1.20	II	C-2	Divesting of interest in paper industry may improve earnings. Div. prospects favorable.
Amer. Pwr. & Lt....	0.42	0.70	....	II	D-2	Higher taxes for 1941 are likely to restrict earnings gains this year. Div. outlook improves.
★Amer. Tel. & Tel..	10.18	10.50	9.00	II	A-2	Prospective further industrial gains point to dividend maintenance.
Amer. Water Wks..	0.95	1.35	....	II	C-2	Payment of dividends restrained by necessary funds for establishing subsidiaries.
Brooklyn Un. Gas...	2.42	2.35	0.75	III	C-3	Proposed ultimate refunding of bonds would improve income; dividend omitted last year.
Columbia Gas & El..	0.46	0.55	0.30	II	C-3	Well-situated holding company back on dividend basis; first since 1937.
★Com'wealth Edison.	2.43	2.30	1.80	II	B-3	Dividend likely to be maintained, in spite of higher taxes and operating costs.
Com'wealth & South.	0.13	0.12	....	III	D-3	Higher costs and taxes have nullified gains in gross business of subsidiaries.
Consol. Edison.....	2.22	2.10	2.00	II	B-3	Earnings still running slightly over dividend rate, but cut may be necessary.
Cons. Gas of Baltim're	4.94	4.75	3.60	II	B-3	Narrowing profit margin unlikely to bring dividend reduction.
Detroit Edison......	7.68	A8.43	6.00	II	B-2	Earnings are running sufficiently over dividend rate to indicate relative security.
Elec. Bond & Share.	0.24	0.13	....	III	D-3	One of the chief targets of utility act, company must ultimately be integrated.
Elec. Pwr. & Light..	d0.35	0.20	....	II	D-3	Electric output of subsidiaries has recorded large gains; prospects fair.
Federal Lt. & Tract..	2.64	2.00	4.00	II	C-3	Maintenance of high dividend rate of last year is not anticipated.
Gary Elec. & Gas...	0.55	0.75	....	II	C-2	Location in big industrial area promises large demand for company's power.
Int'l Tel. & Tel.	0.76	def.	....	III	D-3	Far-flung activities abroad create many difficulties for this company.
Laclede Gas Light..	d2.43	def.	....	III	D-2	Refunding plan now being worked on; reported may be announced soon.
Louis. G. & E. "A".	2.33	2.60	1.50	II	B-2	Gains in gross revenue have counterbalanced higher costs; div. appears secure.
Nat'l Pow. & Light..	1.12	1.20	0.60	II	C-2	Asset position on common shares strengthened by cash from Lehigh Pr. Securities.
Niagara-Hudson Pwr.	0.51	0.55	0.15	II	C-2	Small dividend increase may be possible despite large construction program.
★North Amer. Co..	1.99	1.90	1.20x	II	C-2	Regular dividend likely to be paid despite higher prospective taxes this year.
Pacific G. & E......	2.84	2.55	2.00	III	C-3	Rate cuts, higher operating costs and large taxes hurt earnings.
Pacific Lighting.....	3.60	3.10	3.00	III	C-3	Prospective higher taxes for 1941 may bring consideration of dividend cut.
Peoples G. L. & Ck..	3.49	5.00	3.00	II	C-1	Gas sales continue substantial gains of those o the year preceding.
Pub. Serv. N. J.....	2.88	2.40	2.40	II	C-3	Rate reduction and higher prospective costs point to dividend decrease.
★Southern Calif. Ed.	2.39	2.15	1.90	II	C-3	Population and industrial growth factor in area served should raise gross.
Standard Gas & El...	d1.34	def.	....	III	E-2	Number of integration steps necessary in compliance with Utility Act.
United Gas Corp....	d0.55	def.	....	III	E-2	Deficit cut down in 1940 new plant at Koran, La., may aid earnings.
United Gas Imp.....	1.07	1.00	1.00	II	C-3	Profits trend points to possible cut in dividend; 1941 taxes may force this.
United L. & Pr. "A"	0.29	0.35	....	II	D-2	Amended recapitalization plan may result in a single issue of common stock.
Wash. Gas Light....	2.52	2.45	1.50	II	C-3	Load is continuing to expand but costs are preventing earnings rise.
Western Union.....	1.32	3.00	1.00	II	C-2	The 1940 rate of earnings gain is unlikely this year; further divs. possible.

d—Deficit. E—Estimated. x—Also special stock div. ★—Recommended for income.
A—Actual earnings.

Position of Miscellaneous Companies

	Earned Per Share 1939	1940E	Div. Paid 1940	Tax Rating	Market Rating	COMMENT
Abbott Labs	$2.61	$2.70	$2.15	II	B-2	Although sales are likely to improve this year, profit margin will be cut by higher taxes. This influence, however, may not be great enough to bring smaller dividends than in 1940.
American Can	6.22	5.75	4.00	II	A-2	Larger food packs and increased commercial demand point to higher sales volume for 1941; vulnerability to excess profits tax, however, is strong drawback to rise in net income. Dividend safe, temporarily at least.
†American Chain & Cable	1.99	3.00	2.00	I	C-1	Company in favorable position to benefit from higher industrial activity and increased shipbuilding plans. Rising earnings indicate possibility of larger dividend payments than in 1940.
American Chicle	8.79	8.15	6.50	II	A-2	While better consumer buying power should increase sales and cut promotional expense, taxes seem likely more than to counterbalance this potential advance. Dividend stability indicated.
*Amer. Hawaiian S. S	2.27	8.00	3.50	I	C-1	Increased charter rates and sales of some vessels are likely to maintain strong earnings trend for time being. Larger dividend than in 1940 is possible this year.
Amer. Hide and Leather	0.59Je	A0.24Je	....	II	D-2	Profit margin difficulties may continue to restrict advance in net income; sales of company's heavy leathers likely to show increase, however. Div. outlook unfavorable.
Amer. Home Prods	5.23	4.50	2.70	II	B-2	Although prospective higher Federal normal income taxes and confinement of excess profits tax to the invested capital base would be detrimental to profits, earnings still likely to be well above 1940 dividend payments.
Amer. Ice Co	d1.35	def.	....	III	E-3	Marginal company in a declining industry, American Ice is again running a deficit; common dividends are remote.
Amer. Safety Razor	1.54	0.85	0.70	III	D-3	Exceptionally keen competition in this company's industry, as well as prospective higher taxes, point to possibility of smaller dividends this year than in 1940.
Amer. Typefdrs	d0.40M	A0.16M	....	I	C-1	Armament orders have improved prospects; increased advertising budgets for 1941 also indicate possibility of larger demand for printing equipment. Small div. possible.
Atlas Tack	1.16	1.25	....	I	D-1	Increased industrial activity should increase demand for rivets and other company products; small dividend may be considered this year.
*Bath Iron Works	1.58	3.50	0.75	I	C-1	Business of the company is record-breaking, with unfilled contracts likely to take some years to complete. In spite of higher costs and increased taxes, earnings are pointed definitely higher; dividend increase this year also likely.
Bigelow-Sanford	6.45	5.50	3.00	II	C-2	In spite of good reception of new carpet products, earnings are held back by high operating costs and taxes. Profit prospect not particularly impressive, but 1941 indicated large enough to maintain dividend.
Bristol-Myers	3.49	3.50	2.55	II	B-2	Sales uptrend likely to continue, but promotional costs and larger taxes will restrict earnings. Dividends about equal to last year's may be paid in 1941.
Canada Dry	1.88s	A1.63s	....	II	C-2	Though large inventories will serve to some extent to protect profit margins, earnings will be hamstrung by higher operating costs and larger taxes. Small dividend may be considered this year, however.
Cannon Mills	3.64	3.50	2.00	II	C-2	Strong trade position of the company and higher public purchasing power indicate larger business this year, though bigger taxes likely to absorb the increase; maintenance of dividend at least at 1940 rate seems likely.
Carrier Corp	0.05	1.25	....	II	C-1	Good demand for air conditioning arising from the building boom, is stimulating company's earnings. Small initial dividend may be considered this year.
Celanese Corp	3.53	4.00	1.25x	II	C-1	Principal difficulty faced by the company is higher raw material costs, but this should be offset by improved rayon demand, now running at record. Though taxes hurt more than average, small increase in dividends possible this year.
Champion Paper	d0.03Ap	A2.25Ap	0.90	I	C-1	New mill has been running at full capacity and earnings outlook is favorable; increased dividend payments over 1940 likely this year.
Chicago Flexible Shaft	8.80	7.50	6.00	II	C-2	High public income augurs well for company's sales; restriction of the excess profits tax base to invested capital, however, would definitely hurt profits and might bring smaller dividend payments.
Chicago Yellow Cab	1.04	1.10	1.00	II	C-1	Business rising, as indicated by order for 1200 taxicabs; higher costs will obviate earnings advance this year, however, and limit dividends.
Coca Cola	6.82	6.25	5.00	II	B-2	Increased competition and higher costs cutting into earnings. Company's relatively very low invested capital base indicates major injury should excess profits be confined to that base; this would probably call for a dividend cut.
Colgate-Palmolive-Peet	2.74	....	1.00	II	C-2	High operating costs and tax vulnerability offset likely good results from heavy advertising campaign; dividend maintenance likely, however.
Colt's Patent Fire Arms	6.84	9.50	6.00	I	C-1	Machine gun division operating at full capacity and record business is in prospect for all armament lines. Company heavily vulnerable to excess profits, however, which will prevent phenomenal earnings gains. Dividend outlook favorable.
★Comm'l Credit	4.01	4.10	3.25	II	B-2	Though well situated from the excess profits tax standpoint, profit margin is narrow and earnings gains are likely to be restricted in spite of larger business in sight. Dividend outlook stable, however.
★Comm'l Invest. Trust	4.00	4.50	4.00	II	B-2	While the installment financing outlook is good, profit margins are likely to decrease this year, particularly with prospective higher normal Federal income taxes; coverage of regular dividend may be rather marginal.
Columbia B'cast "A & B"	2.93	2.80	2.00	II	C-2	Outlook excellent from the gross business standpoint, but vulnerability to excess profits tax and narrow profit margins raise question as to full continuation of the 1940 dividend rate.
Container Corp	1.85	3.00	1.50	I	C-2	With raw material inventories large and activity relatively high, earnings and dividend outlooks are promising.
Continental Can	2.71	3.00	2.00	II	B-2	Packer and general line can sales are likely to rise further this year, but outlook for margin of profit is comparatively unfavorable. No more than maintenance of the 1940 dividend seems likely this year.
Crown Cork and Seal	2.80	3.75	0.50	II	B-1	Prospects relatively favorable, with containers and closures in rising demand. In spite of likely shrinking of profit margins, larger dividends may be paid.
Crown Zellerbach	1.05Ap	A2.42Ap	1.25	I	C-1	War induced prosperity in the paper industry likely to raise sales and earnings further; somewhat larger dividends than in 1940 possible this year.
Diamond Match	1.64	1.55	1.50	II	B-2	Strong, stable enterprise, company is likely to incur profit margin difficulties in 1941. Higher taxes may bring slightly lower earnings and small dividend cut.
Dixie Vortex Co	2.02	1.50	0.50	II	C-2	Although sales are up and rising, narrow profit margins cloud the outlook for net income; small dividend likely to be paid again this year.
†Doehler Die Casting	2.43	3.50	1.25	I	C-1	Die casting industry booming; Doehler, as largest factor, faces higher earnings, in spite of excess profits tax vulnerability. Larger dividends are likely for 1941 vs. those of 1940.
†Dresser Mfg. Co	2.55	3.25	2.00	I	C-1	Earnings continue sharp uptrend as demand for pipe fittings and others of company's products gains. Tax vulnerability restricts profits expansion, and thus may restrain dividend advances.
Eastman Kodak	8.55	7.85	6.00	II	A-1	Loss of foreign business being offset by greater demand for photographic supplies domestically. Prospective better sales, however, likely to be absorbed in larger taxes and operating costs. Dividend appears secure for time being.
†Electric Boat	1.44	1.50	0.80	I	C-1	The full capacity at which this company has operated for some time obviates large earnings gains, though expansion should help in 1941. Small dividend increase over that paid in 1940 is likely this year.

Position of Miscellaneous Companies

	Earned Per Share 1939	Earned Per Share 1940E	Div. Paid 1940	Tax Rating	Market Rating	COMMENT
Endicott-Johnson	$3.07n	$3.00n	$3.00	II	B-2	Company already has declared the first quarter dividend at the regular rate, but larger taxes and general costs for 1941 may constrain a small cut later this year.
Exchange Buffet	d0.34Ap	Ad0.53Ap	....	III	D-3	Partly reflecting relatively low employment in the financial district of New York City, earnings and dividend prospects remain unfavorable.
†Fruehauf Trailer Co.	4.58	3.50	1.30	I	C-1	Trailer outlook, both for the armament program and for general industry, is excellent. Largest part of likely earnings improvement for this fundamental-growth company, however, will go into increased taxes. Small div. increase possible.
Gaylord Container	0.71	2.00	1.00	II	C-1	Another good year likely from standpoint of sales, but, again, taxes and costs put definite ceiling on profits. 1941 dividends may be slightly over those of 1940.
Gen'l Outdoor Adv.	0.73	0.90	....	II	C-2	Rejuvenated sales trend likely to carry earnings further forward temporarily; preferred dividend arrears preclude early common payments.
Glidden Co.	1.70 o	1.56 o	1.00	II	C-2	Paint and varnish sales still rising, but food division relatively slow; with higher costs and taxes, further dividend increase appears unlikely this year.
Gotham Silk Hosiery	d0.06	def.	....	III	D-2	The current year may be a difficult one in which to break away from deficit operations, what with larger taxes and operating costs in prospect.
Hat Corp. "A"	1.10 o	A1.03 o	0.60	II	C-2	Relatively stable operations likely to continue, but larger expenses of doing business are likely to prevent dividend increase.
Hazel Atlas Glass	6.64	5.75	5.00	II	A-2	Tax vulnerability nullifies improved sales outlook. Establishment of excess profits on invested capital base only would reduce profits and might bring lower dividends.
Household Finance	6.98	7.00	5.00	II	C-2	Relatively low invested capital base and legislative restrictions detract from favorable general prospect. Noteworthy earnings expansion will be difficult. Dividend is safe for time being.
Industrial Rayon	1.78	2.75	2.00	II	C-1	Record-breaking demand for rayon, with continuing good prospects, make for good gross business outlook. Profit prospect less favorable but probably good enough to permit maintenance of dividends.
Interchemical Corp.	4.10	3.00	1.60	II	C-2	Larger advertising appropriations for 1941 should advance demand for printing inks, permitting relatively favorable earnings and dividend maintenance.
Int'l Mercantile Marine	d0.99	def.	....	II	E-2	Deficit operations continue; principal fillip to earnings may come through sales of vessels, rather than normal operations. Dividend outlook generally poor.
Int'l Paper & Power	0.14	6.00	....	I	C-1	High earnings mark set in 1940 may be difficult to improve upon, especially since earnings have gone above the excess profits tax exemption; preferred arrears obviate common payments.
Lambert Co.	1.69	1.50	1.50	II	C-2	Higher material and labor costs, as well as increased taxes, are likely to offset potential bigger sales more than fully, possibly bringing dividend cut.
Lehman Corp.	0.71Je	A1.02Je	0.80	II	C-3	Net asset value still runs in excess of current price of stock; current dividend rate appears secure for the intermediate term.
Lehn and Fink Prods.	1.56	1.50	1.37½	II	C-2	Relative sales stability in the face of increased costs and taxes in prospect point to possible slightly lower dividends this year than in 1940.
Loft, Inc.	0.01	1.50	0.50x	II	C-1	The change in the status of the corporation to a holding company for Pepsi-Cola stock pulls it out of the old deficit class. Dividend outlook is favorable.
McGraw Hill Pub.	1.03	1.45	0.75	II	C-1	Larger advertising likely in the company's industrial magazines makes for comparatively bright outlook. Slightly increased dividends likely in 1941.
Mohawk Carpet Mills	3.29	2.50	1.25	II	C-2	Though carpet industry has gotten off to good start this year, as indicated at annual show, tax vulnerability restricts profits gains. Dividends at least as large as last year, however, seem a good possibility.
Novadel Agene	3.67	....	3.00	II	C-2	Long term uptrend in this fundamental-growth company's earnings may be interrupted this year by increased costs and taxes; dividend maintenance at full rate might be questionable if the excess profits tax base be confined to invested capital.
Omnibus Corp.	1.72	1.60	1.20	II	C-2	With public purchasing power high, gross business outlook for this company's subsidiaries is good; enlarged taxes and costs, however, may decrease earnings.
Owens-Illinois Glass	3.17	2.90	2.00	II	B-2	Likelihood of continuing record-breaking sales this year is good; again, however, profit increases will be limited by higher taxes and expenses. Dividend appears secure for intermediate term.
Powdrell & Alexander	0.58	0.50	0.30	II	C-2	Higher prices for curtain materials counteract shrinking profit margins, but earnings outlook remains restricted. Dividend maintenance possible.
Pratt & Lambert	2.78	2.40	2.00	II	C-2	Another case of improved sales being more than offset by larger costs and taxes. Continued shrinking profit margin might bring consideration of small dividend reduction.
Procter & Gamble	3.60Je	A4.37Je	2.75	II	B-2	Now has small stake in armament business. Earnings and dividend outlook restricted by tax vulnerability and larger costs, however.
Radio Corp.	0.35	0.45	0.40	II	C-1	Improvement indicated both in manufacturing and time sales, but costs again detract from outlook. Low invested capital base shows vulnerability to excess profits tax and raises some question as to full dividend continuation.
Simmons Co.	2.11	2.50	2.00	II	C-2	Improved furniture business is stimulating sales of mattresses and other lines; outlook is for high general sales level, but no material rise in earnings or dividends.
Sterling Products	5.25	5.00	3.90	II	A-2	Profit margins likely to be hit by large taxes this year. Confinement of excess profits tax base to invested capital would be a blow and would be likely to necessitate dividend reduction.
Sutherland Paper	2.52	2.75	1.20	I	C-1	Comparatively favorable earnings prospects indicate the possibility of slightly larger dividend payments this year than in 1940.
Tennessee Corp.	0.41	1.40	0.25	I	C-1	Uptrend in sulphuric acid and iron sinter sales likely to continue. Prospect favorable for a dividend increase.
Texas Pacific C. & O.	1.00	0.50	0.40	II	C-3	With proration schedules restraining earnings, and larger costs in store for 1941, this year's dividend may not equal that of 1940.
Tubize Chatillon	....	1.25	....	II	C-2	Continued growth of the rayon industry points to favorable earnings; initial dividend might be considered on common this year.
Union Bag & Paper	0.76	2.00	1.00	I	C-1	Well situated company in the prospering paper industry. Favorable earnings and dividend maintenance anticipated.
United Drug	0.79	0.85	....	II	C-2	Company turns more attention to production of pharmaceuticals and less to department store end of business; earnings outlook relatively good. Small dividend possible this year.
United Elec. Coal	0.32Jl	A0.33Jl	....	II	C-1	Prospects generally favorable for sales volume and prices in the soft coal trade. Despite higher taxes and costs, small increase in net possible and may permit a small dividend.
United Fruit	4.87	5.00	4.00	I	A-2	Growth in gross business in store for 1941. Increased taxes and operating costs may absorb the gain in gross, but margin over last year's dividend still likely.
U. S. Foil Co. "B"	d0.14	....	....	II	C-2	Liquidating value of this investment trust continues to run over current market value of the stock. Dividend prospect unfavorable.
White Rock Mineral Spring	0.51	0.25	....	III	C-3	Newer lines still may expand sales, though recent earnings trends have been steadily downward. Dividend outlook drab.
Wrigley	4.41	4.10	4.25	II	A-2	Tax vulnerability counterbalances factors of strong trade position and higher public buying power. Restriction of excess profits taxes to the invested capital base would be detrimental to net profits and dividends.

d—Deficit. M—Year ends March 31. Ap—Year ends April 30. Je—Year ends June 30. Jl—Year ends July 31. S—Year ends September 30. N—Year ends November 30. E—Estimate. X—Plus stock. A—Actual earnings. O—Year ends October 31. ★—Recommended for income. *—Recommended for cyclical appreciation. †Recommended for inc. & apprec.

Chrysler Sales at Record High

Dubious Stock Market Action Reflects Less Assured Earnings Outlook Beyond First Half Year

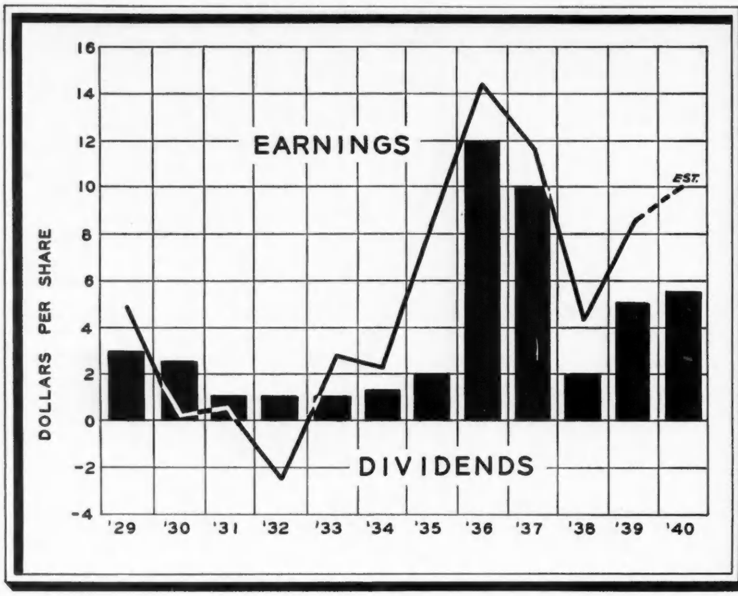
BY J. C. CLIFFORD

ALTHOUGH Chrysler Corp. started late in the automobile industry—it was founded in 1925 by the late Walter P. Chrysler—it lost no time in rising to its present position as the second largest manufacturer of automobiles. The company's line covers every price range and has a model which can be offered in competition with any of the most popular products of its major competitors, General Motors and Ford. Of greatest importance is the fact that in the low price field, which includes the Chevrolet and Ford, Chrysler is not only able to compete on a direct price basis but also has the widest margin of profit per unit.

The phenomenal growth of Chrysler in an industry that has been notorious for the ferocity of the competition is due in most part to the ability of the management. Mr. Chrysler was himself an automobile man of long experience who, like Henry Ford and William Knudsen, rose to the heights from the mechanics' bench by dint of his own efforts. Not only did he know the automobile industry intimately but he also surrounded himself with key-men who were as well founded in their particular branch of the business as he was. So closely knit was this combination that when the leading spirit was removed, the organization has continued to function along the original lines. The remaining executives are all men still in their prime so that no adverse effects of Mr. Chrysler's decease are likely to be discerned in the progress of the corporation that bears his name.

In more recent years it has been the custom of the automobile industry to experience about 3 good years in a row although earlier in the decade, 2 good years marked the height of reasonable expectation. Thus, it would seem as if 1941 should, on general principles, follow the up-trend set in 1939 and so smartly improved in 1940. But, on the same basis, it is possible that 1941 may mark the end of the up-swing in sales and production at least as far as passenger vehicles are concerned. Last year, Chrysler sales rose some 35 per cent from those of 1939. Shipments in the last 3 months of 1940 are estimated to have totaled well over 300,000 units or better than double the shipments in the last quarter of the previous year. Of course, the fact that Chrysler had labor difficulties in the final part of 1939 accounts for part of the sharp comparative improvement but much better actual sales also played an important part in the gains.

Production may not stay at the high levels of the fourth quarter of 1940 through the first 3 months of the current year but there are many good reasons to believe that spring sales will make new high records and pres-



defense which will probably be in full swing by mid-1941. If Chrysler does not have to retool for 1942 models it would add better than $14,000,000 to 1941 earnings, other things being equal, since preparation for the current models of the company are estimated to have cost well in excess of that figure.

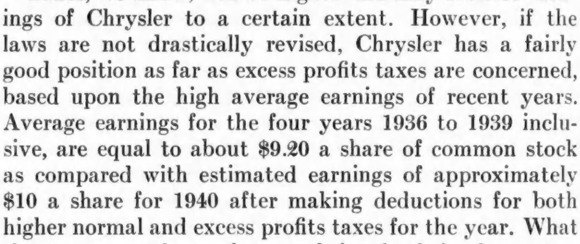
There has been much talk of restricting partial payments for merchandise but most of the objection has centered around the sales of consumer goods with a relatively short life and the practice of extending the time over a period of years, while at the same time exacting no initial payment. Automobiles have a useful life long in excess of the terms of the most liberal partial payment plan now in force for their purchase and at the same time a down payment of at least 25 per cent of the value of a new car is exacted in most instances. Actually, the broad trend of the number of automobiles purchased on the installment plan has been declining in recent years and, in 1939, accounted for but 54 per cent of total new car sales as compared with 62 per cent in 1929 and 68 per cent in 1925. The length of time allowed might be restricted in some instances but if any changes are to be made they will likely be of a strengthening nature.

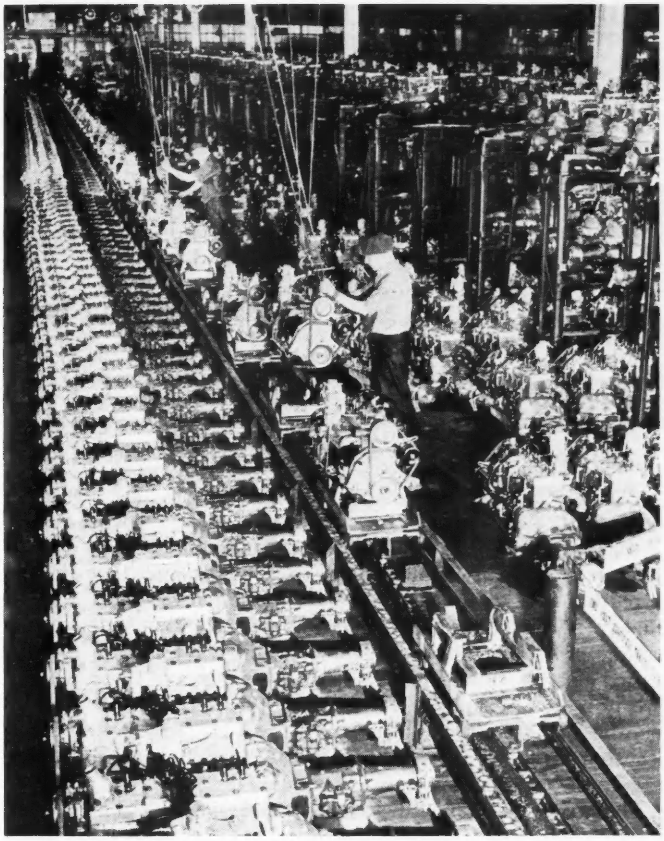
Taxes, we know, will be higher and may restrict earnings of Chrysler to a certain extent. However, if the laws are not drastically revised, Chrysler has a fairly good position as far as excess profits taxes are concerned, based upon the high average earnings of recent years. Average earnings for the four years 1936 to 1939 inclusive, are equal to about $9.20 a share of common stock as compared with estimated earnings of approximately $10 a share for 1940 after making deductions for both higher normal and excess profits taxes for the year. What the next several months may bring forth in the matter of additional taxes cannot be discerned at this time but if increases are in line with present expectations, the

ent high dealer stocks will be reduced to a point where the factories will be compelled to maintain better than average production to meet demands. Apart from the obvious increase in consumer buying power, there are several other potential stimulants to increased sales. Among them is the rather general public belief that higher costs and taxes will sooner or later further increase the selling prices of the low priced cars; no model changes are likely for the next two years at least; later partial payment purchases may sharply be restricted and above all, priorities may make the production of ample new cars to satisfy consumer demand a difficult, even if possible, feat.

There is at least some justification in the general public's belief although what will likely happen is not quite so drastic as it might seem. There is no doubt but that costs are rising. This is particularly so as far as labor and tax costs are concerned. Up to a certain point, Chrysler has an ample defense against this factor inasmuch as profit margins on the Plymouth line—the largest selling of the Chrysler models—are sufficiently high to absorb a fairly high per unit increase in such cost before it would become necessary to increase selling prices above those of Chevrolet and Ford. The latter two are likely first to increase their prices since their unit profit margins are smaller than Chrysler's. If they do, Chrysler's competitive position would be improved or, if Chrysler should elect to follow suit, Chrysler would still have the best profit margin while at the same time maintaining the present position in the trade.

Whether or not there will be new models introduced for 1942 is a moot question. Certainly, any changes that might be brought out would be only of sufficient magnitude to justify the title of a "new model" and would involve no changes in engines or running gear which would demand extensive retooling. In the first place, any radical changes which would require retooling would be highly expensive if the new tools required could be purchased and secondly, there would be no justification for such changes in view of the requirements of national





Finished engines ready for the chassis.

additional imposts will be to some extent neutralized by sharply better business which, of course, includes the sizable Government business already in hand and expected soon to accrue.

Priorities will undoubtedly be a future problem of the automobile industry in general. That they are to be enforced to a point where they will interfere with automobile production is something that no one outside of Washington can say with any degree of authority at this time. Past history is available but even then priorities were not enforced to a point where all passenger car production was abandoned and, moreover, despite the fact that the automobile industry was relatively small at the time of the last war, the productive capacity of the steel industry itself was, relatively speaking, much smaller. Today, the introduction of continuous rolling of steel sheets, the vastly larger and growing steel ingot production capacity and the availability of many suitable substitutes for steel in the construction of passenger automobiles, all combine to make a complete cessation of passenger automobiles unlikely. Then too, even if the number of passenger cars produced should be lower, the decline will come at a time when such a recession would be normal and the production facilities freed would be actively employed in the manufacture of trucks and military vehicles which would require but little change in production methods while at the same time providing a satisfactory profit.

In the final 7 months of 1940, the U. S. Government placed orders with the automobile builders for more than $1,000,000,000 of national defense equipment. Of this amount, Chrysler is understood to have received orders for approximately $100,000,000 with more to come. The most important part of this sum was a contract for 1,000 medium-heavy tanks at a cost of $34,500,000 and does not include the erection of a $20,000,000 plant to build them at Detroit. The plant will be built with Government funds and leased to Chrysler at $1 a year. The plant is expected to be in operation later this year and, when finished, is expected to be able to turn out approximately 5 units daily. When the plant is in operation it will require between 4,000 and 5,000 workmen and as such is a more dangerous threat to passenger car production than any of the factors previously enumerated. The most satisfactory part of this contract is that the company will not be saddled with considerable extra production capacity after the emergency has passed but on the other hand, if it subsequently develops that the space is usable, it can be acquired from the Government on a reasonable basis and in an operating condition.

In common with its major passenger car competitors, Chrysler has an extensive interest in the commercial vehicle field. Here Chrysler has not as yet reached the same competitive position it occupies in the passenger car field and accordingly the output of Dodge and Plymouth trucks is only the fourth largest. Nevertheless, the combined Dodge and Plymouth truck sales are only moderately below those of the nearest competitor, International Harvester, although Chrysler still has some distance to travel before catching up with Chevrolet and Ford. The truck building end of the business is, however, the most profitable on a unit basis and, where profits frequently exceed 20 per cent of the company's selling price, the extra income so derived permits the maintainance of competitive positions in the passenger car field. Dodge is currently handling most of Chrysler's Government business and unless the plants' large capacity is soon exceeded, will represent the branch of Chrysler's business most concerned with defense orders. In addition to Government work, commercial demand for light trucking facilities is constantly rising and due to the utilitarian nature of the product may very likely be exempted from priorities should they ever be imposed.

It is as yet too early to receive figures for the full year 1940 although car and truck registrations for the year offer an excellent basis upon which to estimate earnings for the 12 months' period. There are, however, figures available for the first half of the year which offer interesting comparisons as well as strong indications of trends. First half earnings of $7.01 a share were the best ever recorded for any similar period. The previous first half year record high was in 1936 when $6.85 a share was earned and was within striking distance of the record for any 6 months period established in the last half of 1936 when $7.42 a share was earned. First quarter 1940 earnings were $3.62 a share as compared with $3.39 in the second quarter. Sales in the first quarter, however, were 21.6 per cent higher (*Please turn to page 496*)

Selected Bonds and Preferreds For Income and Appreciation

Capitalizing on Special Factors

BY J. S. WILLIAMS

This is not a discussion directed primarily to the investor who is accustomed to regard bonds and preferred stocks in terms of their superior investment quality and their relative merits for the purposes of capital protection and dependable income, but is concerned chiefly with the more speculative aspects of these two classes of securities. It is hoped, therefore, that it will be of interest to speculative-investors—investors accustomed to seeking income and price appreciation largely through the medium of common stocks.

The writer has on numerous past occasions emphasized the fact that the average high grade bond or preferred stock offers scant inducement to the individual investor. This conclusion was not based on the presence of any potential threat to the fundamental security of either group, but rather on the fact that prevailing prices were so high as to imply the possibility of capital loss with any rise in interest rates. For the investor whose circumstances compel him to practice a high degree of conservatism in the choice of securities, it may well prove much more profitable to accept temporarily the low rate of savings bank interest, or purchase United States Savings bonds, rather than pay high prices for high grade bonds and preferred stocks. It should be borne in mind that a drop, of say three points, in the price of the average high grade bond might result in a capital loss equal to or exceeding the interest income for a full year. High grade bonds and preferred stocks definitely are not a "buy" for the average individual. Opportunities in these groups may be much more plentiful in the months ahead.

Speculative opportunities, on the other hand, are numerous, among medium and lower grade bonds and preferred stocks. A discriminate choice of such issues would seem to hold out not only the promise of profitable price enhancement, but in many instances an unusually liberal return in the way of interest and dividends.

It is not here suggested or recommended that investors replace maturing or redeemed bonds with other issues of substantially lower quality, or that the investor undertake a broad revision of his holdings for the purpose of increasing income return at the expense of basic investment quality. The allotment of a conservative portion of total investment capital to selected bonds and preferred stocks of medium grade quality, with a view to enlarging over-all yield is an acceptable practice. Such procedure, of course, assumes the willingness and ability of the investor to incur somewhat larger risks, although if care is taken these risks in actual practice may prove more apparent than real. The greatest risk, however, lies in carrying the practice too far. Over the past several years, every investor has doubtless had the experience of having good 5% bonds called prior to their maturity and refunded by new bonds bearing a lower rate of interest. In these circumstances the temptation is strong to use the funds to acquire other issues which would permit the maintenance of interest yield at the same level. More often than not this has meant the acquisition of a bond of lower relative quality. This "trading down" if carried too far could result in a dangerous weakening of an investment portfolio, making it highly vulnerable to unforeseen developments of an adverse nature. It is a practice which should not be undertaken without discrimination and competent guidance.

On the other hand, however, a fairly good case can be

Selected Bonds for Income and Price Appreciation

Issue	Recent Price	Current Yield %
Canadian Pac. 4½'s 1946	78	5.77
Balt. & Ohio, P. L. E. & W. Va. 4's 1951	60	6.67
Central Pacific 5's 1960	48	9.60
North Pacific Prior Lien 4's 1997	78	5.18
Southern Railway 6's 1956	79	7.59
New York Cent'l Ref. 5's 2013	68	7.35
Cleveland Union Term. 5's 1973	78	6.41
Cities Service 5's 1950	86	5.81
Continental Gas & Electric 5's 1958	93	5.38
United Drug 5's 1953	88	5.68
Atlantic Gulf & W. I. 5's 1959	83	6.02
Consolidated Coal 5's 1960	80	6.25

made for the strictly speculative possibilities for second grade bonds and preferred stocks—possibilities which should appeal primarily to the investor whose objective is capital appreciation and who is in a position to assume risks comparable to those identified with common stocks. As a matter of fact in the present setting speculative bonds and preferred stocks are favored by various factors, and to a greater extent than many common stock issues.

Undoubtedly the most timely of these favorable factors is the relatively stronger position of second grade bonds and preferred stocks insofar as their vulnerability to higher taxes is concerned. To state the obvious, increased corporate and excess profits taxes will have to be met at the expense of common stock earnings. Although it appears likely that many companies, despite a sizable increase in their tax liability this year, will still be able, with the benefit of the defense program impetus, to show good earnings and pay generous dividends to common stockholders, the recurring threat of higher taxes may have the effect of dampening any speculative ardor and keep most of the rank and file of common stocks in the market "dog house."

The matter of increased taxes, however, is without effect upon the position of bonds. Corporate and excess profits taxes are levied on net income, *after* providing for interest on funded debt and other fixed charges. This means that to whatever extent a company is able to enlarge its gross sales or revenues over the coming months, there will be a relative increase in the margin of protection afforded bond interest requirements. Such a prospect would be nullified only if a company's operating and administration expenses got out of hand and increased more than gross income. It is likely, however, that such instances will be the exception rather than the rule. To the extent that a company's earnings improve and mitigate doubts as to its ability to cover fixed charges by a comfortable margin of safety, the quality of its bonds will be strengthened and warrant the assumption of a higher market valuation.

The greatest force of the Government's defense spending has been felt in the heavy industries and in the volume of railroad traffic—the perennial laggards even at the peak of previous pump priming efforts. By the same token it is among the obligations of the nation's leading railroad systems and industrial companies, particularly of the marginal type, identified with heavy industries, that the widest choice of speculative bonds will be found. Many of these bonds would be entirely out of the scope of investment consideration, or in fact entitled to little more than scant speculative attention, under more normal business conditions. In the present economic setting, however, which virtually guarantees a sustained high rate of industrial activity for an indefinite time, and which will employ the facilities of many marginal companies to a substantial degree, selected speculative and second grade bonds may acquire, at least marketwise, a much greater degree of investment respectability.

The choice of such bonds should not be made with the idea that they are to be held on a more or less permanent investment basis. They are for the most part the type of issue which could not be safely held beyond the duration of the emergency—and probably should be disposed of much sooner. Price should be a major factor in determining the selection of these issues, as well as determining the length of time which they are held. A 10-point profit on a speculative bond purchased at 50 is 20 per cent appreciation and may be equal to interest for two years or longer. In the main, the same general rules applicable to common stock speculation should govern speculative commitments in second grade bonds and preferred stocks.

Selected Preferred Stocks for Income and Price Appreciation

Issue	Recent Price	Yield %
Cudahy Packing 7% Pfd. (arrears total $21 a share)	95	7.37
Wilson & Co. 6% Pfd. (arrears total $7.50 a share)	70	8.57
National Power & Light 6% Pfd	91	6.59
Niagara-Hudson Power 5% 1st Pfd	79	6.33
Int'l Paper & Pwr. 5% Pfd. (arrears total $11.25 a share)	64	....
Crown-Zellerbach 5% Pfd	91	5.49
American Bank Note $3 Pfd	45	6.67
Atch. Top. & S. F. 5% Pfd	64	7.81
American Sugar Refining 7% Pfd	88	7.95
Radio Corporation Cv. 3½% Pfd	61	5.74

While bonds for all practical purposes are immune from the influence of higher taxes, preferred stocks, like common stocks, are dependent for dividends on available earnings *after* taxes. The effect of higher taxes upon high grade preferred stocks will be slight, and hardly sufficient to jeopardize their investment status. On the other hand, the extent to which second grade and speculative preferred issues will be affected will be determined largely by the nature of the business which they represent. Preferred stocks of companies identified with some of the more stable industries may be subject to some reduction in the margin of dividend coverage should earnings fail to expand sufficiently to meet higher taxes. This is a distinct possibility in the case of quite a number of companies which at best are likely to derive only moderate or indirect benefits from the defense program.

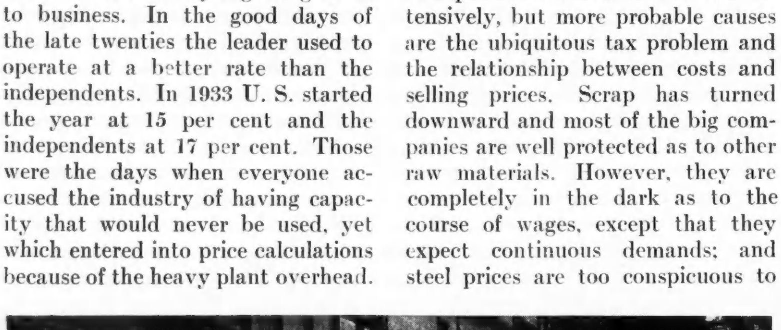
Like second grade bonds, the more attractive speculative opportunities among preferred stocks will be found among the issues of companies prominently identified with the defense effort and whose tax liability seems unlikely to stand too effectively in the way of increased earnings applicable to preferred dividends. Many of these companies are of the "feast and famine" type, with a record of earnings in recent years which at best has been an indifferent one. In not a few instances, these companies have been compelled to defer preferred dividends and arrears in unpaid dividends have accumulated. On the assumption that swiftly mounting earnings will enable such companies to liquidate preferred dividend arrears, or otherwise arrange for their elimination, the more promising of these issues might well provide profitable speculative mediums. This despite the fact that the possibilities in that direction have not gone unmarked. Many second grade and speculative preferred issues and particularly those with back dividends have scored substantial price gains over the past six months. For some issues, the market "cream" (*Please turn to page* 491)

For Profit and Income

Big Steel Busiest

The steel industry operated at 98 per cent of capacity in the second week of the new year, with **U. S. Steel** at 101 per cent and independents trailing at 96½ per cent. This was only the second time since 1932 that Big Steel was ahead of its competitors in a comparable week; and it shows the industry is getting down to business. In the good days of the late twenties the leader used to operate at a better rate than the independents. In 1933 U. S. started the year at 15 per cent and the independents at 17 per cent. Those were the days when everyone accused the industry of having capacity that would never be used, yet which entered into price calculations because of the heavy plant overhead. Since then many millions have gone into new mills but the cry is for more steel capacity.

Stocks in this group, incidentally, have been acting badly. **U. S. Steel** and **Republic** have not been treated respectfully by traders so far in 1941. The demand for expansion of ten or fifteen per cent at a time like this may have something to do with it, and priorities are talked about extensively, but more probable causes are the ubiquitous tax problem and the relationship between costs and selling prices. Scrap has turned downward and most of the big companies are well protected as to other raw materials. However, they are completely in the dark as to the course of wages, except that they expect continuous demands; and steel prices are too conspicuous to be allowed to go up without a fight.



Courtesy Republic Steel

Finishing stands of Republic's 98 inch continuous hot strip mill.

First Report

The first large industrial company to show results for 1940 was **Reynolds Tobacco,** heading up a long list of demonstrations of the effect of taxes on earnings. Sales were $292,039,000, compared with $276,730,000 a year earlier. Operating profit was $37,649,000, against $34,696,000. Taxes, however, were up 44 per cent, to $10,894,000, and those were federal and state income taxes only. As a result, net profit was held down to $25,548,000, or $2.55 a common share, which was just a penny less than earned in 1939.

If a company of this type, with a record of stable earnings, hopes to maintain income at former levels, it must increase sales and operating profits substantially over coming months.

Low for the Century

A price of $30,000 for a Stock Exchange seat sets a new low since the $29,500 price in 1899. Volume controls this market, but the trend toward over-the-counter sales of large blocks of stock gave the discouraging tip-off. A number of such sales were reported to have taken place for British account, but the fever seems to have affected even American holders lately, and offerings have come thicker and faster. The crowning blow was 500,000 shares of **Standard Oil** (New Jersey) priced at the close, which was 25 per cent more shares than the previous day's total volume of trading on the Stock Exchange. The block was reported to be from the E. S. Harkness estate.

Candidates for 1941 Payments on Arrears or Recapitalization

Preferred Stocks	Accumulation Per Sh. (Approx.)	1940 Divs.	1940 Per Sh. Interim Earns.	1940-41 Price Range	Recent Price
Amer. Locomotive	$41	$5.00	$3.35 Je-6	94½-38	94
Amer. & Foreign Power $6	52	1.20	5.06 Se-9	24¼- 9⅛	15
Amer. Woolen	80	7.00	1.13 Je-6	61⅜-25½	58
Armour (Ill.)	18	.....	8.56 Nv-12	64¼-35	52
Assoc. Dry Goods, 2nd	24	23.00	21.28 Ja-12	97 -49½	97
Blumenthal (S) & Co	26	8.75	25.00 Se-9	95 -54	80
Budd (E. G.) Mfg.	70	.....	17.83 Se-9	72¾-21	66
Byers (A. M.) Co	30	12.81	11.57 Se-12	85 -39	84
Foster Wheeler	56	.....	5.49 De-12	132 -61	130
Gen. Outdoor Adv. "A"	14	16.50	7.10 Se-9	60 -32½	43
Gen. Steel Castings	57	.....	5.02 Se-9	65¼-14	59
International Paper	11	6.25	13.19 Se-9	73 -40½	66
Jones & Laughlin	45	4.00	10.62 Se-9	110⅛-48½	107
Otis Steel	13	.....	.75 Se-9	53½-21	52
Pere Marquette Prior	15	.....	7.24 Oc-10	47 -17¼	46
Pittsburgh Steel "A"	17	.....	9.21 Se-9	43¼-10	41
Revere Copper 7%	50	1.75	14.36 Se-9	74⅛-39	72
Standard Gas & Electric $7	47	.....	4.99 Se-9	22¾-12⅛	17
Universal Pictures	66	.....	77.31 Ap-6	144 -59	137
Worthington Pump	9	1.12½	11.87 Se-9	58 -29	57

Ja-12: Yr. ended Jan. 31, 1940; Ap-6: 6 mos. ended April; Je-6; 6 mos. ended June 30; Se-9: 9 mos. ended Sept.; Nv-12: 53 wks. ended Nov. 2; De-12: year 1939.

It is not pleasant for the Exchange, either, to see plans made to "stabilize" issues such as **Union Pacific** prior to offering them. This means that the price on the floor is important as a gauge, but can be ignored when the actual transactions begin.

Incidentally, the federal tax on the Standard Oil sale amounts to $7,500, the state tax to $20,000. Regular commissions for buying and selling, if done on the floor, would have totaled $160,000. The "two-dollar brokers," who actually charge $2.50 a hundred for their services, missed out on a possible $25,000 windfall.

Oddity

Deadline for the **American Car & Foundry Co.** to have delivered 329 tanks to the Government was January 11th. The company completed delivery on these tanks by the end of the year, with eleven days to spare. (The current order is almost ten times as large.)

Liquidation One-Third Completed

Secretary Morgenthau listed $616,000,000 of American securities among British assets still to be liquidated, and he later spoke of $355,000,000 already sold. The question on most traders' minds is how fast the remainder must be turned into cash. The British have been very considerate of the market in their selling, as it is to their interest to be. Some months have seen almost a complete stop in their operations. Presumably if this country's fiscal aid comes promptly enough there will be no greater hurry in the future to sell in weak markets. But no one can be sure.

English owners of American stocks who turn their securities over by request to their government have a serious reinvestment problem. They can hold their sterling balances, they can buy real estate, or they can buy securities. Sterling's value after the war is a mystery. Real estate is a bomb target. Stocks are little better, but at least they represent something tangible and yielding an income. The London Financial Times industrial average has been rallying persistently ever since early December, and since the first of the year the rails have been following.

Many in the United States have acquired the habit of looking toward London as a guide to the New York market's larger swings. Few stick to that reasoning, though, under today's conditions.

Cheap Rights

A favorite way to take a long shot speculative gamble in the past was in the rights to buy a certain stock at a price. When **Phillips Petroleum** rights sell at 1/512 on the Stock Exchange it is enough to whet the appetite of almost anyone. A round lot of 100 rights could be bought for 20c plus costs; 100,000 of them would total under $200. All it means today is that the offering is not attractive.

Management at a Premium

The defense effort is causing shortages in more quarters than skilled labor and vital materials. Some of the best managerial brains in the country have been called to Washington, and a good many more have been put to special work. Some companies can stand this; their business is well organized and steady, running along lines which can be established a year or two in advance.

The opposite is true in an increasing number of enterprises today. Key men are either missing or put under an intensified strain just at the time their companies are taking on additional work that calls for an unusual proportion of executive decisions. Mistakes are going to be more frequent, but everyone knew that when the job was taken on.

Bendix Spurts

The annual meeting of **Bendix Aviation** disclosed that shipments in December quarter were double the rate of a year earlier, and that orders on hand or in prospect totalled $310,000,000 at the year end. About 60 per cent of this total is actually on the books, but the president told stockholders that the balance is reasonably certain.

The rate of gain in shipments in the first nine months of 1940 was only 65 per cent as compared with 100 per cent in the December quarter. Mr. Bendix disclosed that the "rate of expansion of essential defense products now averages about 15 per cent per month, or three times the expansion rate of one year ago." If this increase were to continue geometrically, it would mean a rise of 360 per cent in the rate of expansion by next December.

The Magazine of Wall Street's Common Stock Price Index

Fifteenth Annual Revision

IN ENTERING upon the sixteenth year of THE MAGAZINE OF WALL STREET's Common Stock Price Index we continue our annual custom of presenting for the many students of this Index a brief review of the principles upon which it is constructed and the changes embodied in this year's revision.

Based upon weekly closing prices of the most active common stocks listed on the New York Stock Exchange, the Index is intended to record the broader price movements in the more important industrial group averages and in the market as a whole. Taken in conjunction with the daily index of 40 Industrials, both of which appear as regular features of THE MAGAZINE OF WALL STREET, readers are presented with a complete picture of the stock market in its short, intermediate and long term movements, and thus are given a broad perspective.

THE MAGAZINE OF WALL STREET'S COMMON STOCK PRICE INDEX

Group Swings in Two Eras

(1925 Cl.—100, unless otherwise indicated)

Group	1926-32 High	1926-32 Low	1933-40 High	1933-40 Low	1939 Close	1940 Close
COMBINED AVERAGE	173.1	17.5	122.0	22.7	64.5	53.9
Agricultural Implements	655.5	17.9	253.3	26.8	101.2	86.0
xAircraft (1927 Cl.—100)	307.1	16.2	257.7	40.0	217.5	178.0
xAir Lines (1934 Cl.—100)	......	......	409.1	56.8	269.2	312.8
Amusements	272.0	11.4	72.6	7.3	27.1	22.7
Automobile Accessories	212.6	10.7	146.6	12.4	88.4	93.2
Automobiles	134.9	5.8	30.1	7.0	11.2	9.9
yAviation (1927 Cl.—100)	307.1	16.2	235.5	41.3	198.2	179.5
Baking (1926 Cl.—100)	100.0	4.8	28.5	5.1	11.3	8.3
Business Machines	385.8	29.6	308.6	39.8	113.8	91.9
xBus Lines (1926 Cl.—100)	168.0	11.3	129.2	13.2	88.7	62.4
Chemicals	363.9	53.6	247.7	71.5	166.9	153.2
Construction	145.4	9.9	88.3	11.3	32.6	25.2
Containers	273.5	51.0	361.0	92.9	228.2	196.2
Copper & Brass	391.5	14.9	217.3	20.3	99.2	87.2
Dairy Products	146.0	28.3	57.8	21.8	30.8	25.6
Department Stores	100.0	4.5	42.7	6.6	20.7	18.9
Drugs & Toilet Articles	201.9	35.1	108.8	35.0	45.9	37.3
Finance Companies	213.9	23.7	441.1	33.2	266.0	172.0
Food Brands	140.4	28.3	117.8	32.6	96.4	78.6
Food Stores	244.1	33.9	77.5	20.5	46.9	43.9
Furniture & Floor Coverings	209.3	11.7	122.3	10.5	54.9	39.5
Gold Mining	587.0	189.0	1372.0	481.2	929.7	652.9
Investment Trusts	406.2	9.5	58.6	14.5	22.8	17.4
Liquor (1932 Cl.—100)	......	......	360.0	85.0	150.0	140.7
Machinery	298.5	28.7	209.8	35.6	113.5	107.2
Mail Order	426.5	7.7	107.4	13.5	93.2	74.7
Meat Packing	104.4	15.6	120.3	21.9	54.0	46.6
Metals, non-Ferrous	273.0	19.3	334.1	30.1	156.6	133.7
Paper	208.1	1.6	26.5	1.6	14.5	13.4
Petroleum	182.6	21.6	158.8	29.3	83.0	71.1
Public Utilities	388.4	37.1	114.9	23.0	53.5	35.8
Radio (1927 Cl.—100)	321.1	6.2	35.4	6.7	10.5	9.6
Railroad Equipment	136.1	12.0	112.9	17.7	53.2	46.4
Railroads	169.5	10.4	63.0	7.2	13.2	7.7
Realty	177.4	2.1	28.5	1.2	2.4	1.8
Shipbuilding	113.4	4.1	129.3	6.2	73.5	125.6
Steel & Iron	173.4	11.7	165.6	19.1	84.8	81.6
Sugar	116.1	3.8	45.3	7.3	28.7	18.4
Sulphur	386.9	53.9	216.5	79.3	162.1	183.8
Telephone & Telegraph	252.3	21.0	97.4	28.1	45.8	33.9
Textiles	128.5	16.1	91.8	22.5	54.1	47.8
Tires & Rubber	114.3	2.5	29.2	3.0	15.2	11.0
Tobacco	195.0	40.8	101.8	46.2	86.5	71.2
yTraction	140.4	17.9	85.4	15.6	35.3	42.1
Variety Stores	138.8	23.3	369.2	23.3	234.0	208.3
z100 HIGH PRICED STOCKSv	......	......	107.97	48.09	66.81	58.72
z 100 LOW PRICED STOCKSv	......	......	136.47	36.43	56.10	44.21

(z)—Nov. 14, 1936, Cl.—100. (v)—High-Low record goes back only to Nov. 14, 1936. (x)—New Group. (y)—To be discontinued.

It will be recalled that judgment plays no role in selecting the issues to be included in the weekly Price Index. The decision is left entirely to the trading and investing public, under a purely mechanical rule that common stocks in which transactions amounted to 500,000 shares or more during the preceding calendar year are added to the list automatically at the time of our regular annual revision; while issues in which the volume of transactions fell below 100,000 shares are dropped, unless such omission should reduce a group to less than two component issues and so necessitate its discontinuation.

Changes in 1941 Index

This year, under the rule, twenty-five issues have been dropped and 6 added; so that the 1941 Index contains 290 stocks, against 309 last year. Owing to transit unification in New York City, it has been necessary to discontinue the Traction group; but a new group, "Bus Lines," has been set up to replace it. The old Aviation group has been broken up this year into two new groups—"Aircraft," based upon 1927 closing prices as 100; and "Air Lines," based upon 1934 closing prices as 100. Thus the 1941 Index is composed of 44 sub-groups, against 43 last year.

Annual revision in the number, character and grouping of issues included in the list is essential to keeping the Index abreast with evolutionary changes in industry as mirrored in the stock market. An experience of fifteen years in analysing the behavior of the Index has amply confirmed the wisdom of this procedure; since it has served throughout the period to keep the Index thoroughly representative of the market as a whole, and has

at all times caused it to cover more than 80% of the total volume of transactions in all listed common stocks.

Computing the Index

Once included in the list, a stock is carried along in the Index for the entire calendar year. If merged with another company, securities received in exchange are substituted. If delisted, over-the-counter prices are substituted until the new year, when the stock is dropped. Component issues are compensated, by customary methods, for all stock dividends, split-ups and rights valued at 10% or more of the stock's market price immediately after selling "Ex."

For the most part, group indexes are based upon 1925 closing prices as 100; but in a few instances, such as "Liquor" and "Air Lines," a later year has been taken as the base; since stocks representative of the industry were not listed prior to such year. The "Unclassified" group, made up of issues which could not be assigned logically to any of the standard industrial groups, is based each year upon closing prices of the preceding year, and not linked back to 1925 closing prices, as are most of the other groups.

All stocks, regardless of size of the issuing company, are accorded equal weight in the Index. Each group index — including the Combined Average, and the 100 High and Low Priced Stocks—is derived separately, as follows:

First determine a price index for each component issue by finding the ratio of its closing price for the current week to its closing price at the end of the preceding year, and then find the unweighted arithmetic average of all such individual indexes in the group. This gives an auxiliary index, the "current year index." Finally, multiply this current year index by the group's closing index for the previous year. The result will be the group's "secular index," as published.

In computing the 100 High and Low Priced Stock indexes, closing prices on November 14, 1936, were taken as 100; since the Combined Average also stood at approximately 100 on that date. Each year, the

(*Please turn to page* 495)

THE MAGAZINE OF WALL STREET'S COMMON STOCK PRICE INDEX

1941 Grouping of the 290 Component Issues

4—AGRICULTURAL IMPLEMENTS
Deere
Harvester
Minn.-Mol. Pr. Imp.
Oliver Farm Equip.

9—AIRCRAFT
Aviation
Boeing
Cons. Aircraft
Curtiss-Wright
Douglas
Lockheed
Martin
No. Am. Aviation
United Aircraft

4—AIR LINES
Eastern Airlines
Pan Am. Airways
United Air Lines

6—AMUSEMENTS
Loew's
Paramount
Pathe
R. K. O.
Twentieth Century
Warner Bros.

14—AUTOMOBILE ACCESSORIES
Bendix
Borg-Warner
Briggs Mfg.
Budd Mfg.
Budd Wheel
Cont. Motors
Eaton Axle
Elec. Auto-Lite
Hayes Body
Houd.-Hershey "B"
Murray
Stewart-Warner
Thermoid
Timken-Detroit

13—AUTOMOBILES
Chrysler
Gen. Motors
Graham Page
Hudson
Hupp
Mack
Nash
Packard
Reo
Studebaker
White
Willys-Overland
Yellow Truck

3—BAKING
Cont. Baking "B"
Gen. Baking
Purity

3—BUSINESS MACHINES
Burroughs
Nat. Cash
Rem.-Rand

2—BUS LINES
Greyhound
Omnibus

8—CHEMICALS
Allied Chem.
Com. Solvents
du Pont
Liquid Carbonic
Mathieson Alkali
Tenn. Corp.
Union Carbide
U. S. Indus. Alc.

18—CONSTRUCTION
Am. Radiator
Barber Co.
Bucyrus-Erie
Byers (A. M.)
Central Foundry
Certain-teed
Crane Co.
Flintkote
Johns-Manville
Lone Star Cement
Nat. Gypsum
Nat. Supply
Otis Elevator
Pitts. Screw
Thompson-Starrett
U. S. Pipe
Walworth
Warren Bros.

5—CONTAINERS
Am. Can
Container Corp.
Cont. Can
Crown Cork
Owens-Ill. Glass

10—COPPER & BRASS
Anaconda
Bridgeport Brass
Calumet & Hecla
Cons. Coppermines
Gen. Cable
Granby
Inspiration
Kennecott
Miami
Phelps-Dodge

2—DAIRY PRODUCTS
Borden
Nat. Dairy

6—DEPARTMENT STORES
Allied Stores
Asso. Dry Goods
Gimbel Bros.
Macy
Marshall Field
Penney

6—DRUGS & TOILET ARTICLES
Colgate-Palm.-Peet
Coty
Gillette
Sharp & Dohme
United Drug
Zonite

2—FINANCE COS.
Com. Credit
Com. Invest. Trust

7—FOOD BRANDS
Calif. Packing
Corn Prods.
Gen. Foods
Hecker
Loft
Nat. Biscuit
Stand. Brands

2—FOOD STORES
Kroger
Safeway

4—FURNITURE & FLOOR COVERING
Congoleum
Servel
Simmons
Spiegel

2—GOLD MINING
Alaska Juneau
Dome Mines

6—INVESTMENT TRUSTS
Adams Express
Am. International
Atlas Corp.
Lehman
Transamerica
Tri-Continental

3—LIQUOR
Distillers Seagram
Nat. Distillers
Schenley

9—MACHINERY
Allis-Chalmers
Am. Mach. & Fndry.
Caterpillar
Evans Prods.
Foster Wheeler
Gen. Electric
Timken Roller Bear.
Westinghouse Mfg.
Worthington Pump

2—MAIL ORDER
Montgomery Ward
Sears, Roebuck

4—MEAT PACKING
Armour, Ill.
Gobel
Swift & Co.
Wilson

11—METALS, NON-FERROUS
Am. Metals
Am. Smelt. & Ref.
Am. Zinc, Lead
Butte Cop. & Zinc
Callahan Zinc
Cerro de Pasco
Int. Nickel
Nat. Lead
Park Utah
St. Joseph Lead
Vanadium

3—PAPER
Crown Zellerbach
Int. Paper
Union Bag

21—PETROLEUM
Atlantic Ref.
Barnsdall
Cons. Oil
Cont. Oil
Houston Oil
Mid-Cont.
Ohio
Phillips
Pure Oil
Richfield
Shell Union
Socony
S. O., Calif.
S. O., Indiana
S. O., N. J.
Superior Oil
Texas Corp.
Texas Gulf Prod.
Texas Pac. C. & O.
Tide-Assoc. Oil
Union Oil

18—PUBLIC UTILITIES
Am. & For. Pr.
Am. Pr. & Lt.
Am. Water Works
Columbia Gas
Com. & Southern
Com. Edison
Cons. Edison
Elec. Pr. & Lt.
Engineers Pub. Serv.
Int. Hyd. Elec. "A"
Nat. Pr. & Lt.
North American
Pac. G. & E.
Pub. Serv., N. J.
So. Calif. Edison
Standard G. & E.
Stone & Webster
United Gas Imp.

3—RADIO
Radio Corp.
Sparks-With.
Zenith

9—RAILROAD EQUIPMENT
Am. Car & Fndry.
Am. Locomotive
Am. Steel Foundries
Baldwin
Gen. Am. Trans.
Gen. Ry. Signal
Pressed Steel Car
Pullman
West. Air Brake

17—RAILROADS
Atchison
Atlantic Coast
B. & O.
Canadian Pacific
C. & O.
D. & H.
D., L. & W.
Gt. Nor., Pfd.
Ill. Central
Lehigh Valley
N. Y. Central
Nor. Pacific
Pennsylvania
Seaboard Air Line
So. Pacific
So. Ry.
Union Pacific

2—REALTY
Gen. Realty
U. S. Realty

2—SHIPBUILDING
Elec. Boat
N. Y. Shipbuilding

12—STEEL & IRON
Allegheny-Ludlum
Am. Rolling Mill
Bethlehem Steel
Blaw-Knox
Crucible
Gt. Nor. Ore
Interlake Iron
Nat. Steel
Otis Steel
Republic
U. S. Steel
Youngstown S. & T.

2—SUGAR
Am. Crystal
Cuban-Amer.

2—SULPHUR
Freeport
Texas Gulf

3—TELEPHONE & TELEGRAPH
Am. Tel. & Tel.
Int. Tel. & Tel.
Western Union

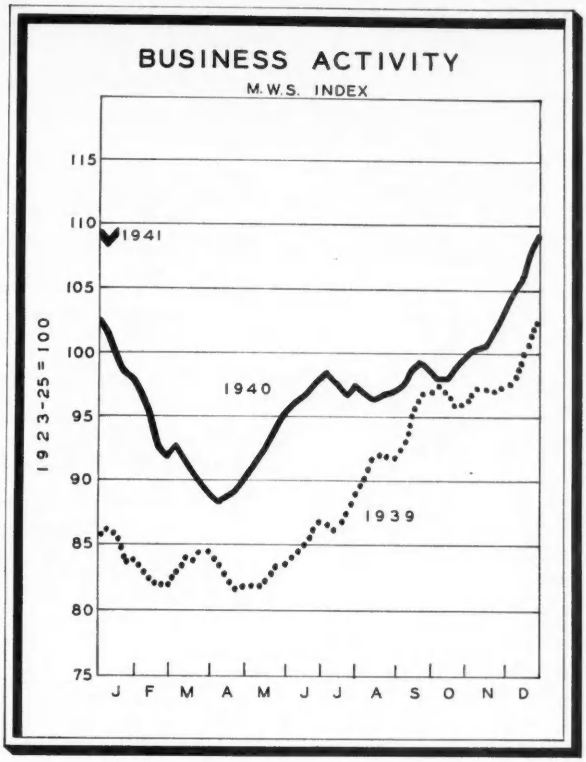
2—TEXTILES
Am. Woolen
Celanese

3—TIRES & RUBBER
Goodrich
Goodyear
U. S. Rubber

4—TOBACCO
Am. Tob. "B"
Lig. & Myers "B"
Lorillard
Reynolds Tob. "B"

3—VARIETY STORES
Kresge (S. S.)
McCrory
Woolworth

19—UNCLASSIFIED
Am. Hide & Leather
Am. Type Founders
B. M. T.
Canada Dry
Cont. Ins.
Curtis Pub.
Eastman Kodak
Glidden
Int. Merc. Marine
Libbey-Owens
Marine-Midland
Martin-Parry
Newport Industries
Procter & Gamble
Shattuck (F. G.)
So. Am. Gold & Plat.
Sperry
Tex. Pac. Land Trust
United Fruit



CONCLUSIONS

INDUSTRY — Continued expansion, with only minor set-backs, looked for this year.

TRADE—British Empire taking 60% of our exports; but supplies only 26% of our imports.

COMMODITIES—Prices after reaching new war peak, waver moderately. Forward buying accelerated.

MONEY AND CREDIT — Banks continue to expand investment portfolios. High currency circulation retards expansion excess reserves.

The Business Analyst

After a slight dip over the Christmas holiday, **Business Activity** in the first full working week of the new year has rebounded to the 1940 peak. Preliminary figure on the Federal Reserve Board's index of **Industrial Production** for December indicates a rise to 136, from 133 in November; compared with an advance to 131, from 124, during the like interval, for our own index of Business Activity computed on the same basis, and there is every reason to suppose that much further improvement will be witnessed in the months ahead.

* * *

The President's preliminary budget for the 1941-2 fiscal year contemplates expenditures of $17.5 billions and revenues of $8.3 billions, leaving a deficit of $9.3 billions; but Senator Glass is quoted as remarking: "if you add about $10 billions to that you'd be closer to being right." While scepticism is permissible as to the Government's ability to expend $27.5 billions within the next fiscal year, because of bottlenecks, it should be reasonably clear that efforts to spend anything approaching this sum are bound to raise serious problems of **price control.** With constant vigilance in nipping unwarranted price advances in the bud an inflationary conflagration can probably be averted, without resorting to a sharp increase

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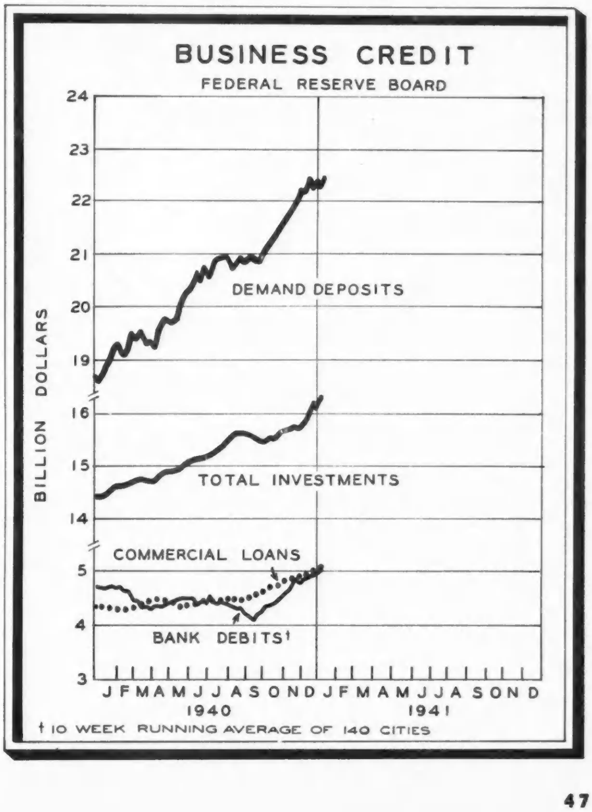


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Dec.	136(pl)	132r	126
INDEX OF PRODUCTION AND TRADE (b)	Nov.	99	96r	93
Production	Nov.	101	98	94
Durable Goods	Nov.	99	96	85
Non-durable Goods	Nov.	103	99r	98
Primary Distribution	Nov.	91	87r	89
Distribution to Consumers	Nov.	102	97	95
Miscellaneous Services	Nov.	92	92r	85
WHOLESALE PRICES (h)	Dec.	79.7	79.3	79.2
INVENTORIES (n. i. c. b.)				
Inventories	Nov.	124.7	122.7r	107.0
New Orders	Nov.	208	198r	133
Shipments	Nov.	150	147	131
COST OF LIVING (d)				
All Items	Dec.	85.8	85.5	85.3
Food	Dec.	78.2	77.2	78.5
Housing	Dec.	87.5	87.5	86.6
Clothing	Dec.	73.0	73.1	72.9
Fuel and Light	Dec.	86.5	86.3	85.6
Sundries	Dec.	98.1	98.1	96.8
Purchasing value of dollar	Dec.	116.6	117.0	117.2
NATIONAL INCOME (cm)†	1st 11 mos.	$66,897	......	$63,196
CASH FARM INCOME†				
Farm Marketing	Nov.	$864	$1,049	$808
Including Gov't Payments	Nov.	943	1,126r	884
Total, First 11 Months	Nov.	8,258	......	7,717
Prices Received by Farmers (ee)	Dec. 31	101	99	96
Prices Paid by Farmers (ee)	Dec.	122	122	122
Ratio: Prices Received to Prices Paid (ee)	Dec.	83	81	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	112.4	109.9	98.3
Non-durable goods	Nov.	109.1	110.2	109.2
FACTORY PAYROLLS (f)	Nov.	114.8	114.5	101.7
RETAIL TRADE				
Department Store Sales (f)	Dec.	101	100r	95
Chain Store Sales (g)	Dec.	128	124	120
Variety Store Sales (g)	Dec.	140	132	130
Rural Retail Sales (j)	Nov.	137.9	122.0	122.7
Retail Prices (s) as of	Dec.	96.2	95.0	94.9
FOREIGN TRADE				
Merchandise Exports†	Nov.	$328	$343	$292
Cumulative year's total† to	Nov.	3,703	......	2,809
Merchandise Imports†	Nov.	223	207	235
Cumulative year's total† to	Nov.	2,372	......	2,071
RAILROAD EARNINGS				
Total Operating Revenues★	1st 10 mos.	$3,539,445	......	$3,281,797
Total Operating Expenditures★	1st 10 mos.	2,563,885	......	2,413,033
Taxes★	1st 10 mos.	340,660	......	300,952
Net Rwy. Operating Income★	1st 10 mos.	527,102	......	457,433
Operating Ratio %	1st 10 mos.	72.44	......	73.53
Rate of Return %	1st 10 mos.	2.38	......	2.07
BUILDING Contract Awards (k)	Dec.	$456	$380	$354
F. H. A. Mortgages				
Selected for Appraisal†	Dec.	77.7	83.8	67.1
Accepted for Insurance†	Dec.	56.9	......	53.2
Premium Paying†	Dec.	77.5	......	64.8
Building Permits (c)				
214 Cities†	Dec.	$99	$82	$63
New York City†	Dec.	15	20	13
Total, U. S.†	Dec.	114	103	77
Engineering Contracts (En)†	Dec.	$399	$383	$190

PRESENT POSITION AND OUTLOOK

(Continued from page 479)

in reserve requirements, by the more sensible methods of admonition, price fixing, priorities, higher taxes and sale of Government securities through other than banking channels.

* * *

But if **wages** are allowed to rise, compensatory price advances can not be stopped. The 1940 census found that, on March 30, 1940, out of a total labor force of 52,840,000 (approximately 40% of the population), 8,488,000 were **unemployed** or on emergency Government work. Within eight months after the census was taken, practically 2,000,000 of these had found employment. At this rate, virtually all of the employables would be absorbed by the summer of 1942, and long before this there would be serious labor shortages at points of concentrated demand and in trades calling for specialized training. Industry appears to be heading into a sellers' market for labor.

* * *

During the past fortnight there has been some increase in the spread over last year's **price level. Raw material prices** now average nearly 1% higher than a year ago and **wholesale prices** are up about nine-tenths of 1%. **National income paid out** during November totaled $6,231,000,000, a rise of 6.2% over the like period in 1939, ompared with an eleven-months' gain of only 5.9%. For the month of December, **department store sales** rose to the highest level since 1930, with a 6% gain over the like month of 1939; but sales in the week ended Jan. 4 showed an increase of only 4%. **Chain store sales** in December were 7% ahead of the like period of 1939, against an increase of 7.7% for the full calendar year. **Variety store sales** in December were up 4.2%, compared with 5.4% for the year; while **mail order** houses reported a December increase of 11.9%, against 11.3% for all of 1940. In November, the British Empire took 60% of our total merchandise **exports;** but supplied on 26% of our **imports.**

* * *

While **carloadings** at the present time are running only 4% ahead of last year, the 13 Shippers' Advisory Boards look for an increase over last year of 9.5% for the first quarter and (according to unofficial sources) a 12.5% margin of gain for the second quarter. It is thus possible that **railroad** income for the first half year may compare favorably with the like period in 1937.

* * *

Construction contracts awarded in 37 states east of the Rockies during November were 27% ahead of the like month in 1939. Building material **costs** average 7% higher than a year ago, while the overall cost of erecting a six-room dwelling is up 10% in St. Louis. Secretary Morgenthau believes that in most instances such advances are unwarranted. In the trade it is generally expected that construction volume will continue to expand during the spring and summer; but in some quarters a tapering off is looked for later in the year.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	6,301	6,283	5,822
Pig Iron Production in tons★	Dec.	4,415	4,403	4,221
Shipments, U. S. Steel in tons★	Dec.	1,544	1,425	1,444
AUTOMOBILES				
Production				
Factory Sales	Dec.	491,250	......	469,100
Total 1st 12 Months	Dec.31	4,676,657	......	3,732,659
Registrations				
Passenger Cars, U. S. (p)	1st 11 mos.	3,081,016	......	2,406,833
Trucks, U. S. (p)	1st 11 mos.	525,209	......	449,288
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Dec.	333.7	367.7	318.5
Shipments, U. S. & Canada★ (tons)	Dec.	361.5	......	342.9
Mill Stocks, U. S. & Canada★ (tons)	Dec.	165.8	192.6	182.5
LIQUOR (Whisky)				
Production, Gals.★	Nov.	11,761	10,303	9,018
Withdrawn, Gals.★	Nov.	10,529	8,982	10,370
Stocks, Gals.★	Nov.	475,611.	476,298	465,931
GENERAL				
Paperboard, new orders (st)	Nov.	426,614	486,181	414,224
Machine Tool Operations	Dec.	96.8	95.4	93.3
Railway Equipment Orders (Ry)				
Locomotive	Nov.	40	30	41
Freight Cars	Nov.	9,026	11,786	17,698
Passenger Cars	Nov.	10	67	8
Cigarette Production†	Dec.	13,815	14,347	12,803
Bituminous Coal Production★ (tons)	Dec.	40,600	40,012	38,066r
Portland Cement Shipments★ (bb'ls)	Nov.	10,329	15,776	10,147
Commercial Failures (c)	Dec.	1,086	1,024	1,153

PRESENT POSITION AND OUTLOOK

Automobile assemblies in the first full working week of the new year spurted to the highest level for any January week on record, leading to a prediction that total for the month will exceed 450,000 units. Factory sales of cars and trucks in the U. S. and Canada last year reached 4,676,657, a total exceeded only in 1929 and 1937.

* * *

North American production of **Newsprint** last year totaled 4,785,000 tons (the U. S. accounting for 21% of this), or 16% larger than in 1939. Year-end mill stocks were down 9%. Second quarter prices have been reaffirmed for the second quarter, making 3½ years of price stability. Production of all types of paper last year reached an all-time record of 14,200,000 tons—5% above 1939.

* * *

Lumber orders booked in December were 18% ahead of the like period in 1939, compared with a 10% gain for all of 1940. Year end inventories were off 10%. The War and Navy Departments plan to order $100,000,000 worth of **machine tools** this year as a reserve from which both defense and civilian emergency needs may be supplied.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan. 11	109.1	108.5	99.6
ELECTRIC POWER OUTPUT				
K.W.H.†	Jan. 11	2,835	2,705	2,593
TRANSPORTATION				
Carloadings, total	Jan. 11	711,675	614,171	667,713
Grain	Jan. 11	34,421	26,806	31,872
Coal	Jan. 11	152,352	123,127	164,463
Forest Products	Jan. 11	37,724	29,819	30,102
Manufacturing & Miscellaneous	Jan. 11	301,095	274,355	260,922
L. C. L. Mdse	Jan. 11	146,716	125,101	114,110
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 14	23.44	23.44	22.61
Scrap $ per ton (m)	Jan. 14	20.66	22.00	17.67
Finished c per lb. (m)	Jan. 14	2.261	2.261	2.261
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 18	98.0	97.5	85.0
CAPITAL GOODS ACTIVITY (m) week ended	Jan. 11	128.2	120.5r	102.8
PETROLEUM				
Average Daily Production bbls.★	Jan. 11	3,364	3,367	3,592
Crude Runs to Stills Avge. bbls.★	Jan. 11	3,436	3,427	3,520
Total Gasoline Stocks bbls.★	Jan. 11	79,984	78,277	84,326
Fuel Oil Stocks, bbls.★	Jan. 11	104,572	105,239	78,213
Crude—Mid-Cont. $ per bbl	Jan. 17	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Jan. 17	1.63	1.63	2.23
Gasoline—Refinery $ per gal	Jan. 17	.05⅝	.05⅝	.06⅝

PRESENT POSITION AND OUTLOOK

Electric power output has rebounded sharply since the year-end holidays to a level of 9.3% above last year. It is estimated that electric power plant capacity will be expanded by 6,000,000 kilowatts this year, capital expenditures by privately owned utilities contributing to the cost about $680,000,000 or $100,000,000 more than last year. The SEC holds that the Holding Company Act compels separation of gas from electric properties, even though both be in the same geographic area, unless such separation would result in the loss of substantial economies.

* * *

World **steel** output last year reached the record volume of 158,000,000 net tons (5% above 1939), of which the U. S. contributed 42%, Germany 18%, Great Britain 10% and Russia 14%. Germany's output last year was 5% lower than in 1939; but output in Great Britain fell 50%. Steel capacity in the U. S. rose last year to 82,000,000 tons, from 71,000,000 in 1930 and 17,000,000 in 1900. Defense and export demand for steel here this year is expected to total 20,000,000 tons, and about the same next year.

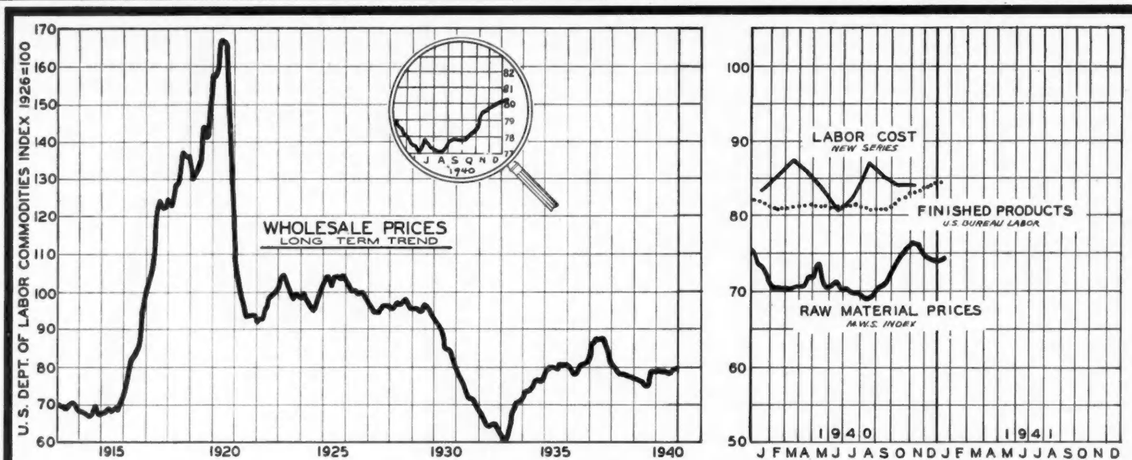
* * *

Though exports of **petroleum products** during the first year of the war fell off 28% (about 10% of domestic production), consumption this year is expected to be 9% above last year.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p) Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Commodity price indexes, of both spot and future contracts, pursued a wavering course over the past week. Declines among individual commodities, however, were slight and without particular significance. Moving against the general trend, prices of raw wool made new highs for the current season, while a sharp advance occurred in hog prices, reflected delayed receipts due to heavy snowfalls. It is only too apparent that the price policy of the Administration is a two-faced one. Prices of basic industrial commodities and raw materials are under close official scrutiny for the purpose of forestalling "unwarranted" advances. On the other hand the Administration obviously favors higher prices for agricultural commodities, through such devices as parity payments, commodity loans and other forms of subsidy. Meanwhile, however, industrial buyers, somewhat skeptical of the ability of the Government to prevent higher prices, and fearful of priority ratings, continue to place large scale orders for future delivery.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Jan. 10	Jan. 17
28 Basic Commodities	124.2	105.6	121.3	120.9
Import Commodities	132.9	104.7	121.9	122.1
Domestic Commodities	120.9	105.5	120.9	120.2

	1940 High	1940 Low	Jan. 10	Jan. 17
Domestic Agricultural	131.3	111.4	128.8	131.3
Foodstuffs	120.0	100.5	118.3	119.7
Raw Industrial	128.4	101.3	123.4	121.8

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
May	Jan. 18	10.41	10.55	10.87
July	Jan. 18	10.31	10.47	10.56
Spot	Jan. 18	10.59	10.59	11.24
(In bales 000's)				
Consumption, U. S.	Dec.	775	744	650
Exports, wk. end	Jan. 17	6	3	232
Total Exports, season Aug. 1 to	Jan. 17	554	538	3,485
Government Crop Est	Dec. 1	12,686	12,847	11,817(ac)
Active Spindles (000's)	Nov.	22,686	22,457	22,785
WHEAT				
Price cents per bu. Chi. closing				
May	Jan. 18	86⅞	86¾	101⅛
July	Jan. 18	81½	82⅛	93⅜
Exports bu. (000's) since July 1 to	Jan. 11	54,422	53,716	65,522
Exports bu. (000's) wk. end	Jan. 11	2,706	1,072	1,745
Visible Supply bu. (000's) as of	Jan. 11	144,292	146,815	114,323
Gov't Crop Est. bu. (000's)	Dec. 1	816,698	792,332	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
May	Jan. 18	63¼	62¼	58½
July	Jan. 18	63⅜	62½	58⅝
Exports bu. (000's) since July 1 to	Jan. 11	20,705	20,448	14,085
Visible Supply bu. (000's) as of	Jan. 11	62,049	62,600	44,462
Gov't Crop Est. bu. (000's)	Dec. 1	2,449,523	2,433,523	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Futures closed the past week with a steadier tone after having shown weakness in sympathy with the stock market earlier in the week. Trade buying absorbed moderate volume of liquidation and hedge selling. Reports from Washington indicate that the Department of Agriculture is working on a plan for acreage reduction with the probability that some method of voluntary reduction will be favored. Estimates place this year's consumption of cotton at a figure near 8 and ½ million bales for a new high record. The previous peak was reached in 1936 when 7,950,079 bales were consumed. During the world war the high point was the year 1916 with a consumption figure of 6,788,505 bales.

* * *

Wheat. Ending the week, wheat attained a steady tone after having drifted downward with the reports of beneficial moisture to the crop in the winter wheat belt. The halt was attributed to purchases by previous short sellers and milling interests. A further decline in the wheat market may encourage wheat held off the market under loan (which begins to mature next month) to be sold.

* * *

Corn. Recent sharp improvement of the corn-hog price ratio is expected to stimulate feeding.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Jan. 18	12.00	12.00	12.00
Export f. a. s. N. Y.	Jan. 18	10.25	10.25	12.00
Refined Prod., Domestic*	Dec.	97,035	96,283	NA
Refined Del., Domestic*	Dec.	112,671	102,483	......
Refined Stocks, Domestic*	Dec.	142,772	158,418	......
Copper Sales, Domestic*	Dec.	90,164	85,635r	29,880
TIN				
Price cents per lb., N. Y.	Jan. 18	50.15	50.10	46.00
Tin Plate, price $ per box	Jan. 18	5.00	5.00	5.00
World Visible Supply† as of	Dec. 31	44,678	40,046	38,280
U. S. Deliveries†	Nov.	12,505	11,820	7,870
U. S. Visible Supply† as of	Nov. 30	26,998	28,851	21,058
LEAD				
Price cents per lb. N. Y.	Jan. 18	5.50-5.55	5.50-5.55	5.50
U. S. Production*	Nov.	57,926	56,600	48,467
U. S. Shipments*	Nov.	57,510	62,496	64,365
Stocks (tons) U. S., as of	Nov. 30	35,791	35,386	58,061
ZINC				
Price cents per lb., St. Louis	Jan. 18	7.25	7.25	5.75
U. S. Production*	Dec.	59,883	56,459r	57,941
U. S. Shipments*	Dec.	65,385	62,295r	53,468
Stocks U. S., as of*	Dec.	12,884	18,386r	65,995
SILK				
Price $ per lb. Japan xx crack	Jan. 18	2.56	2.56	3.73
Mill Dels. U. S. (bales)	Dec.	23,113	36,374	21,128
Visible Stocks N. Y. (bales) as of	Dec.	72,248	60,330	55,610
RAYON (yarn)				
Price cents per lb.	Jan. 18	53	53	53
Consumption (a)	Dec.	34.5	35.0	32.0
Stocks as of (a)	Dec.	5.3	6.2	6.4
WOOL				
Price cents per lb. raw fine Boston	Jan. 18	1.08	1.08	1.04
Consumption period ending (a)	Nov. 30	33,820	39,240	26,436
HIDES				
Price cents per lb. No. 1 Packer	Jan. 18	13½	13½	14
Visible Stocks (000's) as of	Nov. 30	13,529	13,176r	12,727
No. of Mos. Supply as of	Nov. 30	7.32	7.25	6.79
Boot and Shoe Production, Prs.★	Dec.	30,500	30,132	28,690
RUBBER				
Price cents per lb.	Jan. 18	19.62	20.20	19.10
Imports, U. S.†	Dec.	97,984	72,901	71,448
Consumption, U. S.†	Dec.	56,539	54,652	49,636
Stocks U. S. as of	Dec.	318,486	276,943	125,800
Tire Production (000's)	Nov.	4,838	5,082	4,865
Tire Shipments (000's)	Nov.	5,137	5,560	4,268
Tire Inventory (000's) as of	Nov.	9,118	9,448	8,918
COCOA				
Price cents per lb.	Jan. 18	5.25	5.23	5.46
Arrivals (bags 000's)	Dec.	671	369	271
Warehouse Stocks (bags 000's)	Jan. 17	1,374	1,355	1,070
COFFEE				
Price cents per lb. (c)	Jan. 18	7¾-8	8	7⅝
Imports, season to (bags 000's)	Dec. 31	7,015	......	7,199
U. S. Visible Supply (bags 000's)	Jan. 1	2,123	1,820	1,560
SUGAR				
Price cents per lb.				
Raw	Jan. 18	2.92	2.95	2.90
Refined (Immediate Shipment)	Jan. 18	4.40-4.45	4.40	4.50
U. S. Deliveries (000's)*	1st 11 mos.	6,322r	......	6,314
U. S Stocks (000's)*as of (rr)	Nov. 30	703	675	794

PRESENT POSITION AND OUTLOOK

Copper. The market continues dull and unchanged with no new developments either marketwise or by way of Washington. In looking at December statistics it shows that a further large decrease took place in the stocks of refined copper, a new all-time high was reached in domestic shipments and production continued at high levels.

* * *

Tin. Reports from Pittsburgh are that tin plate activity has picked up slightly in the past few weeks but has been less than anticipated in some quarters. Operations are now estimated at between 55% and 60%. In the local tin market there is no change in prices or in the general situation.

* * *

Lead. The market continues firm at 5.50c New York and 5.35c St. Louis. Buying by consumers remains moderate.

* * *

Silk. During the first half of January exports of Japanese silk to the United States dropped to 6,720 bales compared with 10,565 bales shipped during the second half of December, reports the Commodity Exchange. In the local market interest in silk futures continues limited.

* * *

Hides. Reports are that the Government will invite bids for an additional 1,500,000 pairs of shoes around February 1. With leather moving freely, tanners are looking forward to good buying for the next half year. The spot hide market had a breathing spell last week when sales on the open market reached only 30,500 hides.

* * *

Wool. In the wool top market prices continue to advance with good volume reported. Shipments of Australian wool have begun under an agreement reached with Washington. The present bottleneck in the woolen goods industry appears to be the combing and top dyeing division.

* *

Rubber. The Rubber Manufacturers Association reveal that more than 77 per cent of all the crude rubber consumed in the United States during the first nine months of 1940 went into the manufacture of tires and tire sundries.

* * *

Sugar. Near the close of last week the price of refined sugar was moved up to 4.45 cents a pound. The carryover at the year end was smaller than a year ago but at the present writing the statistics are not yet known. It is believed that negotiations over the sugar loan to Cuba have not been dropped but merely suspended after rejection of terms offered by the Export-Import Bank.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (rr)—Raw and refined. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Jan. 18	1¼%	1¼%	1¼%
Prime Commercial Paper	Jan. 18	⅝-1%	⅝-1%	½-¾%
Call Money	Jan. 18	1%	1%	1%
Re-discount Rate, N. Y.	Jan. 18	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Jan. 4	3,233	2,875	2,765
Cumulative year's total to	Dec. 31	151,100	......	138,420
Bank Clearings, N. Y.	Jan. 4	3,870	3,177	3,102
Cumulative year's total to	Dec. 31	160,878	......	165,913
F. R. Member Banks				
Loans and Investments	Jan. 8	25,608	25,527	23,131
Commercial, Agr., Ind. Loans	Jan. 8	5,031	5,018	4,363
Brokers Loans	Jan. 8	497	584	669
Invest. in U. S. Gov'ts	Jan. 8	9,873	9,719	8,777
Invest. in Gov't Gtd. Securities	Jan. 8	2,756	2,743	2,400
Other Securities	Jan. 8	3,681	3,675	3,308
Demand Deposits	Jan. 8	22,481	22,299	18,823
Time Deposits	Jan. 8	5,419	5,432	5,274
New York City Member Banks				
Total Loans and Invest.	Jan. 15	10,328	10,314	8,789
Comm'l Ind. and Agr. Loans	Jan. 15	1,919	1,918	1,672
Brokers Loans	Jan. 15	323	350	498
Invest. U. S. Gov'ts	Jan. 15	4,325	4,278	3,415
Invest. in Gov't Gtd. Securities	Jan. 15	1,582	1,588	1,226
Other Securities	Jan. 15	1,383	1,388	1,171
Demand Deposits	Jan. 15	10,542	10,486	8,483
Time Deposits	Jan. 15	731	731	657
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 15	14,414	14,284	12,020
Money in Circulation	Jan. 15	8,542	8,628	7,405
Gold Stock	Jan. 15	22,066	22,034	17,805
Treasury Currency	Jan. 15	3,092	3,088	2,968
Treasury Cash	Jan. 15	2,195	2,203	2,361
Excess Reserves	Jan. 15	6,900	6,840	5,500

NEW FINANCING (millions of $)		Latest Month	Previous Month	Year Ago
Corporate	Dec.	389.3	261.2	226.6
New Capital	Dec.	61.1	92.5	30.8
Refunding	Dec.	328.2	168.7	195.8

COMMENT

Earnings assets, as disclosed by the most recent statement of **New York City Member** banks, continue to expand. Despite a decline of $22,000,000 loans, investments rose $36,000,000 accounting for a net gain of $14,000,000. The drop in loans was largely accounted for by reduced brokers' borrowings, loans to commerce, agriculture and industry advancing $1,000,000 in the latest week to a new high for the season at $1,919,000,000. Another new high was also made by a total of demand deposits. Investment commitments were concentrated in direct government obligations.

* * *

Excess reserves of all member banks increased $60,000,000 in the latest week. The total of $6,900,000,000, however is still $40,000,000 under the all-time peak reached last October. It is certain excess reserves would have surpassed previous figures had it not been for the fact the seasonal decline in currency circulation this year has been much less than normal. The decline in currency circulation a year ago taled $314,000,000 in the three weeks subsequent to Christmas; this year the decline has amounted to only $275,000,000. The slowness with which currency is being returned to the banks is retarding the expansion of excess reserves, for the less currency in circulation, the higher the excess reserves. Incidentally, currency in circulation at the present time is $1,137,000,000 higher than a year ago, and $3,000,000,000 higher than it was six years ago.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1941 Indexes Jan. 1	Jan. 4	Jan. 11	Jan. 18
290	COMBINED AVERAGE	53.9	55.2	56.9	54.6
4	Agricultural Implements	86.0	87.0	92.1	86.6
9	Aircraft (1927 Cl.—100)	178.0	180.7	183.9	176.3
4	Air Lines (1934 Cl.—100)	312.8	314.1	306.6	290.3
6	Amusements	22.7	23.8	24.2	22.6
14	Automobile Accessories	93.2	94.3	95.7	91.4
13	Automobiles	9.9	9.9	11.1	10.2
3	Baking (1926 Cl.—100)	8.3	8.5	9.9	9.2
3	Business Machines	91.9	93.1	95.0	94.2
2	Bus Lines (1926 Cl.—100)	62.4	62.4	63.1	63.5
8	Chemicals	153.2	155.1	159.0	154.4
18	Construction	25.2	25.9	26.1	25.1
5	Containers	196.2	199.6	203.7	194.3
10	Copper & Brass	87.2	88.7	88.8	84.8
2	Dairy Products	25.6	27.0	27.6	26.6
6	Department Stores	18.9	19.5	19.7	18.7
6	Drugs & Toilet Articles	37.3	38.0	39.7	38.2
2	Finance Companies	172.0	175.6	182.3	178.5
7	Food Brands	78.6	81.2	82.7	80.5
2	Food Stores	43.9	44.2	45.2	44.4
4	Furniture & Floor Covering	39.5	40.5	42.2	40.4
2	Gold Mining	652.9	675.8	703.8	698.6
6	Investment Trusts	17.4	18.1	19.2	18.1

No. of Issues	(Nov. 14, 1936, Close—100)	1941 Indexes Jan. 1	Jan. 4	Jan. 11	Jan. 18
100	HIGH PRICED STOCKS	58.72	59.22	60.10	58.19
100	LOW PRICED STOCKS	44.21	45.96	48.23	45.80
3	Liquor (1932 Cl.—100)	140.7	142.1	148.2	143.0
9	Machinery	107.2	109.3	111.9	106.3
2	Mail Order	74.7	74.8	75.6	73.8
4	Meat Packing	46.6	45.5	48.3	48.2
11	Metals, non-Ferrous	133.7	138.1	138.6	132.1
3	Paper	13.4	13.6	13.4	12.8
21	Petroleum	71.1	73.5	74.8	72.6
18	Public Utilities	35.8	36.5	38.6	37.0
3	Radio (1927 Cl.—100)	9.6	9.9	9.9	9.4
9	Railroad Equipment	46.4	46.8	48.0	45.3
17	Railroads	7.7	8.0	8.6	8.5
2	Realty	1.8	1.9	2.6	2.3
2	Shipbuilding	125.6	127.5	121.6	117.4
12	Steel & Iron	81.6	82.6	81.6	77.7
2	Sugar	18.4	18.7	20.4	19.7
2	Sulphur	183.8	185.7R	185.3	182.4
3	Telephone & Telegraph	33.9	37.6	40.7	38.1
2	Textiles	47.8	48.0	48.5	46.8
3	Tires & Rubber	11.0	11.2	11.7	11.2
4	Tobacco	71.2	73.0	73.7	73.0
3	Variety Stores	208.3	211.8	213.7	209.9
19	Unclassified (1940 Cl.—100)	100.0	102.0	105.7	106.6

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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Wheeling Steel Corp.

I bought my 100 shares of Wheeling Steel common at 37½ in 1939. When WHX rose to 35⅛ in 1940 I was sure that I would again see it at my original purchase price and beyond. What accounts for the sharp reversal in the price of this stock? Is Wheeling benefiting from U. S. Defense orders? To what extent? How is volume holding up in strip sheet and pipe production for the automobile petroleum and railroad industries? What is the company's sales outlook for 1941 to the building industry? Are tin can manufacturers falling down in their consumption of Wheeling's tin plate as a result of glass and paper competition? Is it your opinion that Wheeling Steel is considerably undervalued on prospects—and should show a sustained rising market trend for the first quarter?—A. D., Cleveland, Ohio.

Because of the fact that Wheeling Steel Corp. is essentially a producer of "light" steels, the company has not thus far been among the principal recipients of the large steel orders being placed by the Government under the National Defense Program. Nevertheless, the company does important business with the automobile industry and in view of the high operating level of the latter, the organization's business is showing improvement which promises to be extended as production facilities for many of the light steel items required in the defense program get into operation. Moreover, prospects indicate not only an increase in demand for sheet steels from the light weight working industries, but increases also appear likely in pipe and wire products' demand. Competition from glass and paper containers has been on the increase in the metal container division, but any loss of business here should be more than offset by increases elsewhere, and accordingly there would seem to be no basis for fear with regard to this important outlet. In the company's report covering the first nine months of 1940, there was shown a net profit of $3,275,186, equal to $3.23 a share on the common stock, compared with an adjusted net profit of $3,043,303, or $2.84 a common share in the like 1939 interval. Earnings in the September quarter alone amounted to $1.99 a share on the common in 1940, as against $1.81 earned in the September quarter of 1939.

The company is paying regular dividends on its 379,335 shares of 5% cumulative prior preferred stock and on October 1, 1940, unpaid accumulations on the old 6% cumulative preferred still unexchanged amounted to but $499,338. Those arrearages must naturally be cleared before payments can be expected on the common stock, but that should present no great difficulty with only 15,852 shares of the 6% cumulative convertible preferred still outstanding. On either an average earnings or invested capital base, Wheeling Steel does not appear to be vulnerable to excess-profits taxes, although much will depend here upon the action taken by Congress on corporation taxes for the current year. That is an uncertainty which has tended to retard the entire market and on its outcome may well depend the subject stock's performance over the months ahead. With the shares quoted at a reasonable figure in relation to indicated current and prospective earnings, however, we feel that holdings may well be retained. Clearing of arrears on the few outstanding shares of the old 6% preferred would probably witness the inauguration of common stock dividends which, judging from present indications, could prove an important factor marketwise in view of the growing investor emphasis upon income return. The attainment of new record levels of activity in the construction and building industries since 1929 is of special significance to producers of pipe, boilers and related products such as Wheeling and 1941 promises to see no let-up in this important field.

Phelps Dodge Corp.

How would your analysts counsel an investor holding 100 shares of Phelps Dodge acquired at 32¾? Should I continue to hold? Do you believe that the 1941 prospect for increased copper production should offset the large burden of taxation—sufficiently to result

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in higher profits for Phelps Dodge? Are the company's copper reserves and facilities for production ample to meet the increased demand for U. S. defense? Have the company's Arizona properties expected to increase copper output by 45% been put into production yet? What about Latin-American copper competition? What is the status of the company's production costs? What are the income prospects of Phelps Dodge's gold, silver and other precious metal production?—smelting, refining and fabricating business?—T. T., Gorham, N. H.

If intermediate fluctuations are of no serious consequence, we believe that present holders of Phelps Dodge common stock are justified in maintaining their commitments undisturbed. The company's report covering 1940 operations has not as yet been made public, but recent estimates place net at approximately $12,430,000, which after all charges, including allowance for increased income taxes, would be equal to about $2.45 a share on the 5,071,260 shares of stock outstanding. If these estimates prove correct, net income last year would compare with $12,278,601, reported for 1939, and equal to $2.42 a share on the capital stock. Earnings last year apparently fell only slightly short of the previous peak earnings established in 1937 when earnings available for the stock were equal to $2.51 a share.

Computing its liability under the excess-profits tax, it is expected that Phelps Dodge will employ the invested capital basis. Possibly, therefore, such taxes will be comparatively small in relation to 1940 earnings. It is certain, however, that the tax bill will be substantially higher this year. At the same time, other factors in the company's outlook are of such a nature as to suggest that despite higher taxes, net may compare favorably with the company's showing in recent years. Accelerated by greatly increased demand from both commercial and defense sources, the probabilities are that domestic consumption this year will tax the total domestic producing facilities. Anticipating the possibility that some shortage may develop later in the year, the Government has contracted to purchase 100,000 tons of copper from Latin-American producers. Not only was the latter action calculated to insure adequate supplies, but to forestall any "unwarranted" rise in the price of the red metal.

However, with copper selling at 12 cents a pound, Phelps Dodge, rated as one of the lowest cost producers in the industry, should have no difficulty in maintaining a satisfactory margin of profit on current output. The company's Morenci property in Arizona, after five years of intensive development, will probably be placed in operation this year, with output from this source likely to reach the rate of 80,000 tons of refined copper annually, beginning in 1942. Moreover, it is a logical expectation that earnings this year will be further enhanced by the company's expanding copper fabricating division, as well as income derived from gold, silver and other precious metals. The company's reported proposal to operate a tin smelting division is still in the formative stage and may not be of material consequence over the coming months.

Preceded by a funded debt of only $17,237,000 of convertible 3½% debentures, the common stock of Phelps Dodge, while speculative, is one of the better situated mining issues and is suitable for retention on the part of holders who appreciate the inherent risks attaching to mining enterprises.

Link-Belt Co.

Why should Link-Belt be currently selling around 37 when earnings for 1940 more than doubled 1939 when the stock sold as high as 47. I bought this stock at 43 to the extent of 100 shares. Are the tax prospects for 1941 the only factor holding it back? Or is this stock discounting major detrimental influences not known publicly? Are backlogs of orders received from heavy industries still growing? Can the company take care of production without expanding its facilities? What about materials and labor costs? Please give me all data regarding the situation of this stock now and its near term appreciation prospects for 1941.—M. Mc., St. Louis, Mo.

At recent levels around 37, the shares of Link-Belt are selling only about 4 points under their 1940-41 high—a decline of less than 10%. On the other hand, the market as a whole, as measured by representative averages, is still about 15% under its 1940-41 high. In the circumstances, we doubt that prevailing quotations for Link-Belt shares reflect anything other than market conditions generally, rather than any factors in the company's prospects likely to prove detrimental to current earnings.

In the first nine months of 1940, the company's sales volume increased approximately $4,000,000 and net profit totaled $2,617,596, as compared with $1,359,737 in the corresponding months of 1939. After allowing for dividends on 31,800 shares of 6½% preferred stock, earnings available for the common shares were equal to $3.52 a share, contrasting with $1.68 a share in the same period of 1939. Earnings in the first nine months of 1940 made allowance for the increase in the normal corporate tax, but were exclusive of any allowance for the company's possible liability for excess-profits taxes.

The uptrend in earnings last year reflected large-scale construction of new industrial plants and the resulting impetus imparted to the demand for industrial machinery. Prospects at the present time indicate that these factors will be even more effective in enlarging the company's sales and earnings over the months ahead. The company has received Government orders in connection with the defense program, but it is understood that the bulk of business on its books at the present time is largely of a commercial character for private industry. Most of the products of the company find their way into virtually every industry in the nation. Broadly speaking these include practically everything for handling materials mechanically and for the transmission of power from one shaft to another. Originally, the company specialized in the manufacture of detachable chains for industrial purposes. At the present time, however, reflecting expansion of activities into new directions, products include locomotive cranes, gasoline crawler cranes and shovels, car dumpers, grain car unloaders and boat unloaders, speed reducers, oil pumping units, coal tipples and sand and gravel washing machines. Production is completely integrated and the company's service and repair divisions normally contribute an important percentage of income.

Last year the company paid dividends totaling $2.00 a share on the common stock, including a year-end extra of $1.00. The company's tax liability this year promises to be considerable, but unless the present tax legislation is revised substantially upward, we consider it quite likely that the company will still be able to make a good showing earningswise. Dividends of at least $2.00 a share

appear assured. All in all, the shares may be endorsed as a promising industrial equity, yielding a fair return and offering possibilities for at least moderate price appreciation.

Best & Co.

Now that the holiday season of peak retail buying activity is over, what is the outlook for Best & Co. for the first quarter of 1941? I have 50 shares purchased at 41, and want your advice on the advisability of holding—or your suggestion for a switch to some issue that will give me the income of Best & Co., but greater appreciation. Do your analysts see good appreciation prospects for this stock ahead? Is Best & Co. benefiting from the rise in employment—or are the effects now confined to stores selling merchandise in the lower-priced brackets? Please give me a concrete report on the trend of sales-prospects ahead—status of costs . . . and how they should be reflected in earnings and appreciation for this stock?—Mrs. R. O., Pittsburgh, Pa.

Although the company's annual report will not be available for some weeks, it appears a safe assumption that Best & Co. in the fiscal period to end January 31, 1941, will show upwards of $3.50 a share earned on its common stock. This would compare with $3.42 a share shown in the fiscal period ended January 31, 1940. In the nine months ended October 31, last, unofficial reports indicated that both sales and earnings were ahead of the like period of 1939. In the closing weeks of the year retail department store sales in the New York area, after having lagged behind the rest of the country as a whole, spurted sharply and retailers were unanimous in reporting the best Christmas season since 1929.

Few retail organizations are able to boast a better record of consistent profits than Best & Co. Since the company's incorporation in 1924, it has never shown a loss and even when the last depression was at its worse, in 1932, sales were in excess of $11,000,000. Stockholders have received a dividend in each year. In a large measure, the company's excellent record has been made possible through the application of able merchandising methods, while stockholders have been accorded the advantage of a comparatively modest capitalization. In addition to the 300,000 shares of capital stock outstanding, there were, at last reports, 3,651 shares of $6 preferred stock and a mortgage of $350,000.

The company's principal store, located in the heart of the shopping district on Fifth Avenue, New York City, specializes in men's, women's and children's wearing apparel, jewelry, costume accessories and various novelties and specialties. Small branches are operating in selected suburban cities and populous resorts. All units place particular emphasis on smart styling and distinctive merchandise. Among department stores, Best & Co.'s inventory turn-over is comparatively rapid and accounts for the company's better-than-average profit margin.

With family income and purchasing power on the up-grade, it is logical to expect that this condition will be reflected in the sales of the company this year—more than offsetting any transitory stimulation to sales which the company may have derived from the influx of visitors to the New York World's Fair last year. To what extent the company's smaller suburban units have contributed to profits is not known, although the forthcoming annual report may throw some light on this matter. While it would not appear that the company is particularly vulnerable to the excess-profits tax, based on existing legislation, it is certain that the item of taxes will take a heavier toll of net over the coming months. Nevertheless earnings should be maintained at a level which should continue to support a generous regular dividend, augmented by extras.

The shares lack the more speculative feature, but where the investment emphasis is given to dependable income, the issue qualifies for continued retention.

American Locomotive

What are the appreciation prospects for American Locomotive common now? I have 60 shares bought at 21. Do you believe American Locomotive at its present price discounts orders placed to date from all sources including U. S. Defense contracts? When should deliveries on Defense orders be made? What additional orders are in prospect, including British and Canadian business? What are the prospects for the company's regular commercial business in 1941—Diesel—electric and steam locomotives? Is the company's capacity adequate to handle government munitions orders plus regular orders? Does American Locomotive have the necessary machine tools for tank, gun carriage and other munitions manufacture—or does the company have a "bottleneck" problem in this respect?

American Locomotive Co. common stock may be conceded a measure of speculative appeal. The company has been one of the earliest and most substantial beneficiaries of large war orders placed not only by our own government, but by the British and Canadian governments as well. Late last year it was reported that the company's backlog of unfilled orders was in excess of $135,000,000, of which approximately $55,000,000 represented business to the United States and $80,000,000, Canadian orders. Orders received included gun carriages and other munitions, with the largest single order from the United States Government for $32,100,000 of tanks. As you doubtless realize, the company is primarily engaged in the manufacture of locomotives, with other peace-time products including Diesel engines and fabricated steel apparatus for use in various processing operations and in oil refining. It has, therefore, been necessary for the company to acquire additional machine tools for equipping facilities for the manufacture of munitions. As a consequence, some delay has been experienced in getting into full production on war orders, but the best estimates indicate that full production schedules will be attained by the middle of 1941. Plant capacity is adequate to take care of additional orders, both of a commercial and war nature.

While it may be some months before the full impact of war business is reflected in the company's earnings, current prospects clearly favor a marked improvement in profits. In the latter connection, it is interesting to note that in 1937 on a sales volume of about $50,400,000, the company was able to record a profit margin of better than 13%, and earnings on the preferred and common stocks were equivalent to $17.37 a share and $4.75 per share, respectively. The 1937 showing may be equalled, if not bettered, in the current year.

Last November the company paid a dividend of $5 a share on the preferred stock, reducing arrears to $41 a share, and further payments on the preferred shares this year appear virtually assured.

The combination of large unfilled orders, rising earnings and an excellent financial position has not gone unrecognized marketwise, the company's preferred shares having advanced from a 1940 low of 38 to current levels of around 94½. The com-

mon shares, on the other hand, are still selling about 6 points under the 1940-41 high. At current levels around 16½, the junior issue appears reasonably priced in relation to indicated earnings, and while there is no immediate prospect of dividends on the common shares, retention on a speculative basis appears wholly justified. Computing excess-profits on the basis of invested capital, it appears unlikely that the company will incur any substantial liability, over the current year at least.

Collins & Aikman

I am considering adding 50 shares of Collins & Aikman to my present 50 share investment in this company, acquired at 34⅛. The tremendous earnings gains shown in 1940 over the preceding year makes me feel that this stock is very much undervalued at market. Will your analysts kindly estimate the early 1941 earnings and dividend prospects for this stock and advise me of its appreciation possibilities? In your reply please inform me of the sale outlook for Collins & Aikman's products in both the automobile and furniture fields—status of raw material and overhead costs.—L. J. S., Topeka, Kansas.

For the nine months which ended November 30, 1940, Collins & Aikman Corp. earned $3.77 per common share as against $2.33 for the like period of 1939. During this period Federal, State income and excess-profits tax amounted to $1,177,300 as against $356,214 for the like period of 1939. Taxes however, for the six months period which ended August 31, 1940 were $480,000 which tends to show the accelerated tempo of the increasing tax burden of this company. While it does not appear that this company will be exceptionally vulnerable to the new excess-profits taxes as they now stand it is, of course, affected due to the fact that the average earnings base is $4.34, while the invested capital base is $2.21, while estimated earnings after taxes for the year 1940 are $5.20. It does seem important to note however, that taxes for this period namely, the nine months of 1940, were approximately 31% of operating profits before depreciation. In view of the increasing speed of our rearmament program accompanied with the intention of the Administration to finance it by increased taxes, this company will not escape from this increased tax burden.

In recent years operations have

been closely linked with the automobile field as this company supplies approximately 75% of the requirements for the pile fabric which is used in the low-priced cars besides the higher grade fabrics which are furnished for the higher-priced models. The output is divided 65% in the automobile field, 30% in the furniture industry, for upholstering, and sales of woolen cloakings, velvets and mohairs account for the small balance. The company has endeavored to protect its position by acquiring the raw products to offset actual contracts as they are received. Consequently, they minimize the fluctuating prices of the basic commodities as much as possible.

Capitalization is relatively simple with no funded debt and since the company has recently amended the certificate of incorporation, the preferred stock of 5% cumulative type with $100 par value has been reduced from 44,499 shares to 42,459 shares, with 45,569 shares outstanding at this time. The common stock is represented by 562,800 shares of no par value.

At the current market price of approximately $29 per share the stock is selling at only 5.6 times estimated 1940 earnings after taxes and consequently appears relatively cheap in respect to its substantial earnings capacity and liberal dividend policy. In 1940, the company paid four quarterly dividends of 25 cents per share and an extra dividend of $1.75 payable February 20, 1940. The reason for the large extra dividend at that time is due to the close of the fiscal year of this company which is about March 1st. As far as market performance for this stock is concerned, it has the characteristics of an investment security as well as a speculative market performer. For a time it experiences wide gyrations in price which is aided by the small capitalization and its high earnings power under periods of expanding business. The significance of the preferred stock selling close to the call price attests to its calibre, substantial earnings over dividend requirements and the possibility of its retirement. With only 40,569 shares in the hands of the public it could all be retired and not seriously deplete the working position of the company.

Consequently, it is our belief that purchase of additional shares of Collins & Aikman stock would constitute a prudent investment policy in view of the ability of this company to garner substantial earnings in periods of good business. Even though taxes would appear to be increasingly heavy it is not felt that they would constitute a prohibited ceiling to expanded earnings and therefore we view the future of Collins and Aikman as favorable at this time.

Tidewater Associated Oil

It is my custom at the beginning of every year to call on your analysts for an appraisal of certain of the doubtful issues in my portfolio with a view to cleaning out the deadwood. I bought my 75 shares of Tidewater at 18¾ and should like to know now what chances I have of seeing an early return to that price in 1941. What is the profit outlook of the company's oil and gas production in view of pending curtailment of refinery operations? What are its earnings prospects from heating oil, kerosene? Will the earnings possibilities of this company be enhanced by the large scale arms mechanization program of the U. S. Government? Would you advise retention of my shares, realizing that early appreciation is my objective in holding this stock? —T. P., New York, N. Y.

As a result of consolidation with two principal operating subsidiaries in 1936, Tidewater Associated Oil Co. now operates directly in all divisions of the petroleum business. The organization controls or owns outright extensive oil properties, while strategically situated refineries and distribution facilities have tended to strengthen the company's competitive position in the trade over recent years. In the earnings report covering the first nine months of 1940, the company showed earnings equal to 84 cents a share on the 6,383,794 shares of common stock, after allowing for dividend requirements on the 500,000 shares of $4.50 preferred. This was a considerable improvement over the 42 cents a common share equivalent recorded in the like 1939 interval. Due to low prices for the refined product, earnings in the September quarter alone showed considerable contraction from the year before, being equal to only 9 cents a common share, against 23 cents. This unsatisfactory price situation was brought about largely by the decrease in the volume of export shipments and the consequent increase in the available supplies in the domestic market. Nevertheless, indications point to a sharp expansion in domestic consumption over the months ahead which may well prove an offset to the restricted export market. The uptrend in domestic consumption will doubtless be enhanced by the high degree of mechanization called for by the defense program, while the speeding up of industrial activity will also prove a boon to lubricating oil demand. Sales of heating oils and kerosene should also tend higher judging from the considerable increase in construction activities and other fields where these fuels are consumed. The industry's importance to the success of the rearmament program would seem to belie any Government action which would undermine the position of Tidewater and other leading organizations in the field, although continued strict control will doubtless be witnessed. While the high level of gasoline inventories doubtless presents a serious difficulty to the trade pricewise, the better control of refinery output through use of the new polymerization method should better enable the industry as a whole to supply the increasing demand for fuel oils without adding materially to the already high gasoline surplus as was formerly the case. Although the attainment of a level approximating your purchase price of the stock probably will necessitate a considerable improvement in market conditions as a whole, the prospect for this company certainly compares favorably with others in the industry and ultimate price improvement seems likely. Finances are in good shape, suggesting that the present 60-cent annual dividend rate will be continued and possibly increased if conditions in the industry improve as now seems likely.

National Supply Co.

I bought 100 shares of National Supply common at 8⅛ as a low-priced stock with good appreciation prospects. I based my expectations on the company's Diesel engine division and tool manufacturing facilities capable of producing equipment essential to our National Defense Program. Some orders I believe were awarded to the company by the War and Navy Departments. What I want to know now is whether Defense orders are continuing—and to what extent? Whether the company is in a position to step-up and adapt its oil equipment producing facilities to fill machinery orders necessary to the wide range of industries engaged in defense production? Is it probable that oil refining equipment needs will be increased in 1941? Would you advise retention—anticipating a favorable price trend for this stock in 1941? —A. J. S., Reno, Nevada.

Latest earnings report of National Supply Co. is for the nine months ended September 30, 1940, when net income amounted to $989,650, contrasting with a loss of $199,446 for the first nine months of the preceding year. These earnings have failed to fully cover preferred dividend requirements, and while continuance of the uptrend in earnings during the final quarter of the year may have approximately covered requirements on the $2 preference stock, it is doubtful if much in the way of available earnings, if any, will be shown on the common. Preceding the common stock are 64,687 shares of 6% $100 par prior preferred on which arrears total $9.75 a share; 226,404 shares of 5½% prior preferred, par $100, with arrears of $8.93¾ and 279,537 shares of $2 preference stock on which arrears now stand at $4.50 a share. These rather substantial arrearages naturally must be taken care of before common payments can be made. Fortunately, the company's base years for tax purposes—1936-39, included two years, 1936 and 1937, in which the company showed earnings of $2.02 and $4.90, respectively, on its common stock. Thus, the company should not be vulnerable to excess-profits taxation. The reason for the organization's low level of earnings since 1937 is the relative dearth of new oil well drilling, which in turn resulted from previous bringing into production of a number of extensive flush pools. The outlook for the oil industry is not such as to indicate that requirements for the extensive line of oil field equipment manufactured by this company will be greatly increased over the immediate future. Nevertheless, the company's manufacturing set-up is such that it should continue to receive sizable amount of business from the national defense program, while demand for internal combination engines, including Diesels, should benefit at least moderately from the increasing tempo of general industrial requirements. With defense orders promising to take up the slack in the company's operations pending renewed demand for oil drilling equipment, the speculative possibilities of National Supply common seem to merit continued retention of the stock with a view to its large potential earning power emphasized especially in 1937, when the equivalent of $4.90 a share was shown.

Selected Bonds and Preferreds for Income and Appreciation

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has been pretty well taken off. With a strong probability, however, that sustained business activity will enhance the position of some of the less obviously attractive preferred issues, profitable speculative opportunities among this group have not been exhausted.

Accompanying this discussion is a list of selected second grade bonds and preferred stocks which appear to offer promise both from the standpoint of current income and potential price appreciation. The common stock investor looking around for suitable replacements for backward issues might well give consideration to issues in these lists. The majority of these issues are identified with industries discussed in connection with the Dividend Forecast elsewhere in these pages, and the reader is referred thereto for more detailed information bearing on their industrial background.

Looking Ahead with the Shipbuilding Industry

(Continued from page 456)

Ways are being expanded in number at Government cost which indicates that the company will receive additional destroyer orders as soon as facilities are available. Located at Bath, Maine, limited facilities are offered for the recruiting of ample skilled help to assist in providing greater output. This is not an insurmountable obstacle, however, for the present volume of work should eventually supply an adequate staff of supervising workers to guide those of lesser skill.

Electric Boat Company is in somewhat the same position as Bath Iron Works inasmuch as the greatest part of its facilities are devoted to Navy work. Only in the case of Electric Boat, the company specializes in the construction of submarines and small war craft such as fast torpedo boats and sub-chasers. The company has orders for 41 submarines to cost more than $100 million and 47 small craft to cost $11.5 million. On the submarines, the problem is mostly one of assembly and fitting for motive equipment and other items are produced elsewhere. The company is particularly well equipped both through experience and facilities to build submarines and accordingly should secure considerable additional business despite the fact that orders on hand are sufficient to hold operations on three shifts at capacity for the next several years.

New York Shipbuilding is one of the largest of the country's shipbuilding plants. It is located on the Delaware at Camden, N. J., and has about 10 building ways, as well as finishing docks and other facilities, all of which have been maintained in a high state of operating efficiency. During depression years in the shipbuilding industry, N. Y. Shipbuilding specialized in Navy construction although some commercial work was accepted. The company's experience has stood it in good stead for its unfilled order backlog is said to be close to $600 million and is growing. Naval work, as well as work for the Maritime Commission will hold yard activities at high levels for a considerable period of time ahead.

A newcomer to the N. Y. Stock Exchange, but certainly not a newcomer to the shipbuilding industry is the recently admitted **Newport News Shipbuilding Company.** Located on the right bank of the James River opposite to Norfolk, Va., the plant is one of the oldest of those now in operation. Up until recently, the company was privately owned. It has an excellent reputation as a builder of fine ships, a fact that seems to be known by the Navy Department for most of the company's unfilled order backlog of about $500 million is for Navy craft of large size. As in the case of most other shipyards, capacity is being increased to accommodate additional work. Newport News Shipbuilding is probably one of the Eastern Seaboard companies that will receive a substantial part of the British order, as well as much additional Naval business. Even with expanded fa-

cilities, work now scheduled is sufficient to hold operations close to peak levels for the next several years and probably for a much longer period of time.

Todd Shipyards Corp. is one of New York City's own shipyards. The company's main plant is located in Brooklyn on New York Bay where it has facilities for construction and repairs of all manner of ships. Currently, the company has orders on hand for the construction of 11 vessels for the Maritime Commission at a cost of about $28 million, as well as a $2 million contract from the Navy for the conversion of a commercial vessel into a troop transport. The ability to convert steamers is of great importance and should be the source of much additional business. The Maritime Commission has also indicated that there will be orders for additional new ships forthcoming as soon as the present quota approaches completion. These orders, combined with a substantial amount of available commercial repairs, promise a long period of high operations ahead for Todd Shipyards Corp. Todd is unique in the shipbuilding industry on its earnings record which has shown a sizable profit in every year since 1929. Dividends have been maintained on par with earnings.

The immediate future of the shipbuilding industry is amply provided for even if facilities are expanded 100 per cent as has been forecast. American merchant tonnage has been at a low ebb since the end of the World War I, but now is expected to increase substantially. The revival of the Ship Subsidy Act and the granting of construction bonuses will assist in maintaining a demand for new ships. This is particularly so since Great Britain's fleet has been reduced by the present war. With a large part of the world's merchant ships destroyed or incapacitated there will be ample business for a new fleet of American ships in world trade. This is particularly so if Government subsidies continue to take up the slack of operating costs. The fact that the Government will assist in financing construction of new facilities and make suitable advances to carry work in construction will relieve the builders of any financial strain, and—what is important to the stockholders—eliminate the need for large indebtedness and reserves and thus permit distribution of sizable dividends wherever possible. The first cycle of prosperity for the American ship building industry lasted about ninety years. The second one was relatively short lived. Duration of the present cycle will depend on events not now predictable. Higher taxes will, of course, take a heavy toll out of profits, but even so the industry will be more prosperous than in many years.

Measuring the Surprising Divergences in Individual Stocks

(*Continued from page* 447)

above the averages (note chart). It is noteworthy that such a spread never lasts long, which on a purely technical basis would call for either a rise in the averages or a decline in Steel. This interpretation is nullified in some degree, however, by the fact that the company's excess profits tax exemption makes it outstandingly above the average and the consideration that steels are an important bulwark in the defense program.

In the Monsanto Chemical-Mathieson Alkali chart, the sharply divergent trends of the two issues are demonstrated. The practically uninterrupted rise of Monsanto through 1934 and 1935 contrasts with a downtrend in Mathieson Alkali through most of 1934. A labored uptrend then developed through 1936. Significantly, at the peak of the 1936 market, Mathieson failed to top the 1933 high, which drew a distinct weakness pattern. The 1937 decline in Mathieson then proceeded to pierce the 1934-35 "line," giving another weakness flash. From the 1936 high to the present, Mathieson has trended along bear lines, its pattern being roughly one of descending tops and an impenetrable crust in the 35-40 zone. Monsanto, after its sensational 1934-35 rise, experienced a "basing" year in 1936, but even in the second half of 1937, the stock was able to break through to a new all-time high. Following the weak markets of 1937 and early 1938, the stock confirmed the favorable technical interpretation by climbing to a new high, which subsequently has been exceeded by two new peaks.

Once more, actual growth of the company and its business, as well as its per share net income, represent the fundamental answer to the advance in the price of the stock. Monsanto's 1929 earnings equal to $2.12 a share on present capitalization, have been more than doubled since then on a per share basis, while the comparison on a straight total of net income is even better: $5,428,-914 in 1939 vs. $1,691,338 in 1929, a gain of 220% over the decade. The statistical background of Mathieson is, of course, quite different. Whereas the 1939 net income equaled $1,095,962, or $1.12 a share, the 1929 net income was $2,324,276. or $3.31 a share. The 1940 net income of Mathieson, however, will be higher than in 1939, with the contrary true for Monsanto, which accounts for the more recent reversals in trend of the two issues.

The Commonwealth-Consolidated Edison comparison shows the huge utilities of the second largest and largest cities in the country, respectively, in long term diversion. From its 1933 peak of 64⅛, Consolidated Edison has established a lengthy bear market pattern, with the large rallies of 1935-36 and 1938-39 successively failing by a wide margin to reach preceding major peaks. On the other hand, Commonwealth Edison, following its 1933 dip to 7⅝ tended to base in 1934, while in 1935 technical strength was shown by a rise through the 1933 peak, with still higher tops being established in 1936 and 1937. The low of 1938 to the high of 1939 shows a secondary bull trend, with establishment of a long base slightly above the 25 area.

For these divergences, fundamental explanation appears in business and income trends. Trend to growth in the Chicago area is reflected in the seven consecutive annual advances in Commonwealth Edison's earnings from 1933 ($1.14 a share) to 1939 ($2.43 a share). Dividends, too, went from $1.12½ a share to $1.65 during the period. Consolidated's picture differs considerably; from the 1933 earnings of $3.32 a share and dividends of $3.45 a share earnings and dividends dwindled to

(in 1939) $2.22 and $2.00 a share, respectively.

The two prominent oil stocks compared show a somewhat similar pattern from 1933 through 1937, with the exception of a much sharper rise by Phillips in the generally favorable 1935-37 period. From the 1938 high, however, the patterns definitely change, with Phillips showing two subsequent new peaks for a bull trend formation in the 14 months following and Standard Oil of N. J. experiencing through this period a toboggan-line to the 1934-35 lows. Resumption of this bearish trend followed the war-outbreak advance of September, 1939, with subsequent sharp penetration of the decisive 35-40 range. Phillips, back for some months in a pyramid-side formation, is in a secondary bull trend.

Reasons for these particular divergences spring somewhat more from typical operations of the two companies than from any long term earnings trends. Thus, the huge foreign interests of Standard Oil of N. J. (only rival for world supremacy are the Royal Dutch Shell interests) are responsible for considerable selling of the stock on possibly intangible grounds that some foreign properties might be affected. Naturally, there also is some adverse effect from the war on earnings, too, through foreign exchange difficulties. In the instance of Phillips, however, the company is purely domestic, thus escaping the foreign property and exchange worry. Moreover, it is the leader by far in the production of aviation gasoline (company is the largest natural gasoline producer in the country), which is a field obviously destined for rapid future growth.

Projecting Assured Industrial Operations for 1941

(*Continued from page* 444)

glance at any list of Army or Navy contract awards in any week will show a wide range of demands for familiar consumer goods of all types —soap, kitchen ware, underwear, electric toasters, canned meats, overcoats, trunk lockers, gloves, shirts, wool neckties, blankets, vegetable shortening, cotton cloth and so on through literally hundreds of items.

Generally speaking, there is no significant inadequacy of capacity in this area of national defense orders, although such demands are superimposed on a volume of general merchandise consumption already pushed to new all time peaks by the major rise in public purchasing power. Unless deliberately curtailed by Government tax and priority policies, activity in the consumer goods sector of our economy will therefore also remain at a high boom level for an indefinite time to come. And that makes it just about unanimous.

As I See It!

(*Continued from page* 439)

sight. This, although to quote him again, "Germany under Hitler has no war aims except to dominate the world," and "She probably could not turn back even if she desired." It is evident that the Ambassador is judging the situation by the ripples and eddies of the individual moves, rather than by the basic factors.

The failure of the Nazis to conquer the British Isles, which he so truly says would have given Hitler domination of Europe, is frankly puzzling to him. German inability to overcome 20 miles of water he used only to illustrate the security of our greater distance. Mr. Kennedy would have served us more realistically if he had been able to explain Nazi impotence, which enabled Britain to build her defenses, regain control of the Mediterranean, strengthen herself in the Far East, and block the Nazi drang nach Osten this winter.

Nazis Playing Poker?

How strong is Germany? It is well to ask the question at this time because the Nazis are once more resorting to terror and appeasement for victories, and spending huge sums on subversive effort.

Their propaganda has built up the kind of Germany they want us to believe exists. How much is pure bluff? I think a lot of it is, as proven by events.

In the first place, Germany began to build her war machine at least fifteen years ago. How much of it is outdated? How much of inferior materials?

It was said she owned 25,000 aeroplanes when the war began! Fighting experience since has brought great changes in aeroplane construction. Now we build flying fortresses, the plane merely providing speed and maneuverability. What, therefore, is Nazi Germany's air status today?

To arrive at a reasonable answer we must start at the beginning:

The Nazis went into the Rhine on pure bluff.

They boldly took Austria without a fight, and a chagrined press reported the breakdown of Nazi trucks and equipment stalled for miles along the road.

Munich, resulting from outbluffing reactionary, dull and greedy Britishers and Frenchmen, gave Hitler the Czechoslovakian plum, the Skoda Works, making the finest munitions in Europe—all for a few shrieks on the radio and the all-out attack of Herr Goebels' noise makers.

Poland, by Blitz No. 1, matched Stukas against a primitive war machine after the air force was destroyed, mainly on the ground. Here the Germans even used old fashioned cavalry.

Scandinavia—by treachery and fifth columnists.

Germany used the modern war machine for the first time in Western Europe after the Nazis' "secret" weapon—sabotage and fifth column subversion—had cleared the way. Yet even here, the important Panzer division equipment was of recent Czech manufacture and was supplemented by what looked like little tanks but which turned out to be small automobiles on which sheets of protective metal had been fastened to create the appearance of a heavily armored car. Thus in this move again, it was principally German ingenuity, careful planning down to the last detail from within and without that won the victory.

It must be evident from the above that in originating the blitzkrieg, the Germans were cutting their garment to their cloth; that their necessity called for a lightning stroke which would not betray their inadequacy for a long war.

Their failure to conquer the unprepared British, of basic importance for the Nazis, arose from their inability

to wage an aeroplane war of continuous intensity. What can this mean except that the Nazis, having only a limited number of modern planes suitable to this type of attack, were obliged to wait for replacements and for overhauling of their equipment before making further attacks?

Moreover, the new and unexpected turn of events produced a different set of circumstances from that contemplated, and Nazi psychology, which requires smooth sailing for efficiency, seems to have been adversely affected by the unexpected resistance of the British. As a result, they have been unable to consolidate their gains and are now thinly extended from Norway to Spain; from the Baltic to the Black Sea, while the near collapse of the Italians makes necessary the defense of a third front to the South.

It will require, therefore, many millions of men properly to man these three fronts and an enormous amount of supplies, with adequate and continuous transportation facilities. Moreover, moving through unfriendly territory provides an additional and serious handicap.

Russia Shifts?

Russia's relation to Germany is being deliberately confused by Nazi propaganda. Insufficient consideration is being given to Stalin's fundamental aim which is to spread Communism over the whole world and that he uses every expedient to do so. Thus, at the moment, he finds it advantageous to join hands with the reactionaries. The unexpected resistance of the British has surprised Stalin as well, but what has floored him, is the trend away from Communism towards Democracy by the British Labor Party, while the devastation by the Nazis has produced a fertile ground for the nurturing of Communism.

It, therefore, seems quite possible that Stalin may believe that only if Hitler wins, can Stalin's absolute State Capitalism continue, with the possibility that it even may be extended to all of Europe. On the other hand, if Roosevelt wins, that the inevitable trend toward Democracy in Russia will set in. These considerations may offset Stalin's fear of a Nazi drive toward the Ukraine on the background of a realistic appraisal of the Nazi military potentialities which have clearly deteriorated since the fall of France.

In Conclusion

In view of all of the above, it can be seen that unstinting aid to Britain at this time is the only sound policy if we are to turn the tide against the Nazi aggressor and flout the Russian dictator. By this means, we can prevent the destruction of everything we hold dear and the inevitable economic disaster of a Hitlerian victory. It is the only way as well to guarantee that the British fleet will not fall into Nazi hands; for if that happens, we would have to expect attacks from the Pacific as well as the Atlantic with the inevitable totalitarian control of South America as Hitler's shadow would fall over us.

Common Stock Price Index

(*Continued from page 477*)

100 High Priced Stocks are the hundred within our list which ended the preceding year at the highest prices. Similarly, the 100 Low Priced Stocks are the hundred which ended the preceding year at the lowest prices, exclusive of stocks then priced at $1 or lower (the so-called "penny stocks"). This year the 100 High Priced Stocks are those which closed 1940 above 20, while the Low Priced Stocks closed last year at prices ranging from 1⅛ to 8⅝, inclusive.

Group Swings

The accompanying tabulation of "Group Swings in Two Eras" presents a spectacular epitome of the broad swings in the Combined Average and its component industrial subgroups during the historic pre-New Deal and New Deal eras. It will be noted that some groups have risen to new heights, and others sunk to new depths under the New Deal when compared with the pre-New Deal period. Perhaps one of the most encouraging lessons to be derived from a study of this tabulation is that New Deal or Old Deal, war or peace, fresh opportunities for the discerning must continue to open up in the future, as they have in the past, so long as there are stocks and bonds to buy and sell.

Socony-Vacuum

(*Continued from page 459*)

oil properties produced approximately 13,571,000 barrels of oil in 1939, the company's domestic properties produced 61,825,000 barrels and the refineries in this country ran very close to 100,000,000 barrels of crude oil. Thus it was indicated that the company's American wells had a net production of much better than half of the company's refining needs, a figure exceeded by only a few of the largest domestic integrated companies. This does not mean that the company does not have sufficient production to take care of all of its refinery needs but rather that it is able to supply more than half of its requirements in spite of severe restrictions on production. Were the company to run "wide open" there would be sufficient and to spare.

Retail distribution is obtained through the ownershp or control of approximately 2,900 wholesale bulk plants, 1,087 company-operated service stations and 40,700 dealer outlets of various kinds. Customer service, such as industrial lubrication analyses and efficiency test, is rendered to industries operating in the company's territory and is productive of considerable customer good will as well as business.

Serving as it does one of the most densely populated areas of the country which at the same time is highly industrialized, Socony-Vacuum is prone to respond more quickly to changes in the purchasing power of the district than it would be if the service area were more spread out. This is not so good in times of bad business but is excellent when business is good. The outlook for the American petroleum industry as a whole is one of moderate improvement but in the case of Socony-Vacuum it is probable that improvement will appear in much greater than average volume.

In common with all other industries, Socony-Vacuum is, however, concerned with taxes. The punitive effect of such imposts is inescapable and will take a substantial share of this year's earnings. Excess-profits taxes as they now stand will have little or no effect for the present since near term earnings are not likely to

exceed the average of recent years by a substantial margin and the company's invested capital is high.

In recent years the price of the shares has on average followed the prospect for earnings and more nearly represented investment demand for the shares than could be expected of many oil stocks. The high integrity of the company and the investment merit of the shares have made them generally popular with investors who are more concerned with steady income rather than rapid appreciation in market value and to such the shares are highly suitable. There is, however, some possibility of moderate increases in market value over the longer term for it would seem from the foregoing discussion that most of the unfavorable factors present in the situation have been rather fully discounted while little attention has been given to the brighter side.

Chrysler Sales at Record

(*Continued from page* 471)

than in the second quarter which would seem to indicate that profit margins in the latter period were better than in the first 3 months. This, however, was far from the case for in the initial 3 months, profits per car before depreciation and amortization charges were approximately $88.50 per unit as compared with $82.31 per unit in the second 3 months of the year. This is readily understood by further study of the earnings report for it discloses that practically all of the cost of retooling for the new model as well as much other similar expense was charged against earnings in the first quarter to the extent of $29.03 per unit as compared with $7.16 per unit for the next 3 months.

During the 3rd quarter of the year, sales fell off somewhat but totaled $92,055,108 as compared with $99,107,086 in the same months of 1939. They were nevertheless quite satisfactory and brought the 9 months sales up to a total of $514,698,390 as compared with $441,895,379 in the similar 1939 period. Net profit before taxes amounted to $45,106,094 or about 17 per cent higher than a year ago. However, the company elected to charge off all of the accrued normal and excess profits taxes against the 3rd quarter with the result that earnings for period were reduced to $0.05 a share and the results for the first nine months were therefore $7.06 a share as compared with $7.22 a share for the first nine months of 1939.

The nine months' statement did, however, indicate considerable improvement in unit sales volume. For instance, during the most recent period, 731,773 units of all types were sold and showed a gain of more than 100,000 vehicles over a year ago. Canadian and export sales were, nevertheless, lower by some 13 per cent at 57,963 units, although such a decline was not altogether unexpected. During the period under discussion, Chrysler shipped 14,023 passenger cars and trucks to the U. S. Government and at that time had on hand orders for 21,874 more.

At that time, the official statement disclosed to some extent how Chrysler was participating in the defense program. Mr. K. T. Keller, the president of Chrysler Corp., disclosed that the company was actively engaged in the production of munitions when he said that the company's production capacity for such items as bomb fuses, shells and cartridges had been expanded 30 per cent while Army truck production capacity had been increased 50 per cent. It was also indicated that Chrysler would play an active part in the cooperative production of airplane parts.

Extreme liquidity of assets has long characterized Chrysler's financial statements and the report dated September 30, 1940, was no exception to the rule. Of the $254,534,704 in total assets at that date, approximately $174,746,940 were current and of the current assets, approximately $95,432,273 was cash and $60,008,884 was inventory. These compared with then total current liabilities of $68,474,274. The greatest individual item among the total current liabilities was a reserve of $14,876,014 for taxes which was about 80 per cent higher than a year before. Equity per common share was $42.76 as compared with $39.18 a year ago.

Chrysler no longer has a funded debt nor any similar obligation prior to the 4,351,132 shares of $5 par value common stock which are currently outstanding. While plans call for a wide expansion of production facilities, they will be paid for in large part by the Government and, for whatever additional facilities are required, cash on hand should be more than ample. Engaged as it is in much defense work, inventories will not be a problem for it is now possible to purchase ahead for known requirements.

The stock has long been one of the popular market leaders but it should be noted that recent technical action has been below average, reflecting liquidation apparently based on uncertainty as to the company's fortunes beyond the first half of the year. Its civilian sales may or may not be materially hampered by defense priorities; and it is doubtful whether profits on defense orders will equal those on normal business. At the right price, Chrysler has always been an excellent speculative-investment buy for cyclical appreciation but—taking into account the intermediate uncertainties in its picture—the equity cannot be considered at a bargain level today. Recent market action of General Motors has been similarly dubious. This is no reflection on these first rate enterprises nor is it a guide to their ultimate place in the American economy. Put it down simply as one of the less favorable stock market cross-currents accompanying the armament-war-orders boom.

Happening in Washington

(*Continued from page* 449)

ment contract he will have the contract forced on him, and if he refuses it his plant can be confiscated by the Government under the "draft industry" law. Since all manufacturers know this, the "voluntary" preference system is expected to work well.

The priorities system, therefore, is designed to give defense orders first call on manufacturing facilities, rather than to ration civilian consumption. Machine tool users and commercial airlines already know that it is useless to place orders for more than certain minimum requirements, and other industries will feel the pinch here and there before long. It is impossible to say just what nondefense production will be curtailed or delayed by the Government's preference, but officials hope that it can be held to a moderate minimum.

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